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ABSTRACT

Designed for secondary teachers to use in conjunction with a textbook, the teaching guide assists the teacher in incorporating economic facts, concepts, and principles in a United States history course. The primary purpose is to identify historical events which can be enriched by consideration of relevant economic topics in an interdisciplinary approach. Content is geared to inquiry-discussion techniques. Twenty-one American history topics are presented in chronological order from the 17th century to the present with a brief account of events of the period which had important economic aspects. Key economic terms are identified in bold faced type. Discussion questions which vary in difficulty and a number of suggested activities (such as interviews, role-playing, films, filmstrips, talks, field trips, community resources, and visits to local museums and places of historic interest) follow the introduction of each topic. (SJM)

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TEACHING ECONOMICS IN AMERICAN HISTORY

A TEACHER'S MANUAL FOR SECONDARY SCHOOLS

George G. Dawson

Edward C. Prehn

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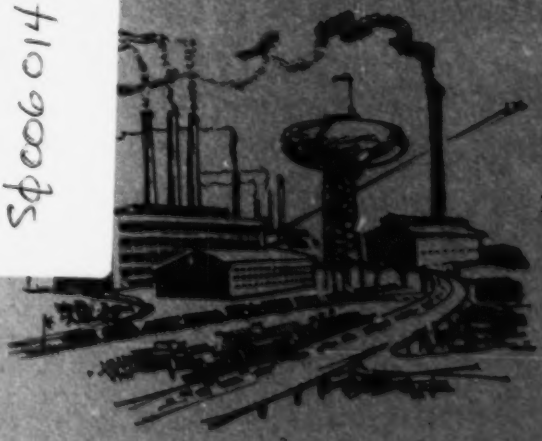

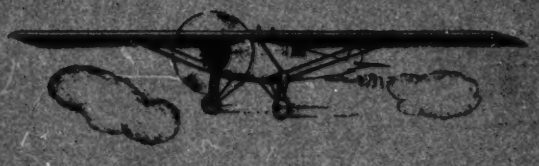

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TEACHING ECONOMICS IN AMERICAN HISTORY

A TEACHER'S MANUAL FOR SECONDARY SCHOOLS

George G. Dawson and Edward C. Prehn

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Table of Contents

INTRODUCTION—How to Use this Book 1

TOPIC 1—The Explorers and the Early American Colonies 5
Economic motivation of voyages; define economics, goods, services, wealth; profit motive; importance of labor, specialization and productivity.

TOPIC 2—The American Revolution 10
Free enterprise and free trade versus economic controls and Mercantilism; taxation; supply and demand; monopoly; free enterprise.

TOPIC 3—The Confederation Period and the Constitutional Convention 15
Economic aspects of the Constitution and how economic factors helped to bring it about; the basic problem of economics (scarcity) and efficient allocation of resources through specialization and exchange; factors of production; opportunity cost.

TOPIC 4—Establishing a New Government 19
Need for national economic unity; government finance; sound money; what money is and what form it takes; revenue and protective tariffs; public debt; law of demand.

TOPIC 5—Growth of U.S. Nationalism 23
Economic growth and how it is measured; gross national product (GNP) and other aggregates; social and private capital; per capita output.

TOPIC 6—The Age of Jackson 28
The United States Bank; central banking; functions of banks and central banks; economic impact of Gibbons vs. Ogden and the Dartmouth College case.

TOPIC 7—Sectionalism and the Coming of the Civil War 32
Economics of slavery; economic differences between the sections; the tariff controversy; effects of tariffs; inflation.

TOPIC 8—The Civil War 36
Economic aspects of the war; how economics gave the North the advantage; the cost of the war; taxes; national banking system.

TOPIC 9—The United States Becomes a Leading Industrial Nation 40
Growth of big business; the corporation; forms of business enterprise; productivity; urbanization.

TOPIC 10—The Protest Movements 45
Labor unions; functional distribution of income; farm problems; women's rights.

TOPIC 11—Business Concentration 51
Monopolistic practices; Interstate Commerce Commission; Sherman Act.

TOPIC 12—The Reforms of Theodore Roosevelt 55
Trust busting; conservation and environmental pollution; food and drug legislation; Meat Inspection Act.

TOPIC 13—Wilson and the New Freedom 59
Clayton and FTC Acts; Federal Reserve System; income tax.

TOPIC 14—World War I 63
U.S. as world supplier; debtor-creditor positions of nations; national debt; wartime controls.

TOPIC 15—The 1920's and the Depression of the 1930's 67
The business cycle; new fields—autos, movies, radio; sick industries of the '20's.

TOPIC 16—The New Deal 71
Controlling the cycle; fiscal and monetary policies; Keynes; automatic stabilizers; Social Security; SEC; Wagner Act; NRA; child labor laws; FDIC; New Deal and labor; New Deal and the farmer.

TOPIC 17—World War II 75
International economic problems before World War II; emergency controls; economic impact of the war; neutrality legislation.

TOPIC 18—Postwar Recovery and Development 79
Marshall Plan; OEEC; Truman Doctrine; World Bank, IMF, GATT; G.I. Bill; the dollar gap; trade agreements; Common Market; Taft-Hartley Act.

TOPIC 19—The Rise of New Nations 84
Underdeveloped economies; the vicious circle; overpopulation and other problems; foreign aid and investment.

TOPIC 20—Competing Economic Systems 89
Capitalism; socialism; communism; mixed economies.

TOPIC 21—Domestic Problems Today 93
Unemployment; the farmer; consumer protection; distressed areas; poverty and discrimination, environment; urban problems.

Bibliography 99

INTRODUCTION

How to Use This Book

THIS book is designed to help the teacher to incorporate economic facts, concepts, principles and problems in the high school American history course. It is important to realize that by injecting economics into the course one need *not* take something else out. Indeed, economics will enrich and enliven the history course and enable the teacher to relate historical events to current issues in a meaningful fashion. Thus, Hamilton's financial programs, Jackson's "war" on the Second United States Bank, Bryan's Silver Campaign and the like will no longer be treated in a purely descriptive fashion but will be used to shed light on current problems of money and banking, controversies over economic growth and the Federal government's involvement in the economy, and so on. Conversely, a knowledge of basic economic principles will give greater meaning to the historical events stressed in every high school textbook. An understanding of the nature and function of money, the role of central banks, concepts underlying economic growth, and the causes and effects of inflation (or deflation) will reveal the significance of those events cited above.

This book is not intended to serve as a proxy for a text in American economic history, nor can it substitute for a thorough text in principles of economics. Although it does include some important facts about our economic development, and although it contains some brief discussion of basic economic concepts, its primary purpose is simply to point out those events found in the typical U.S. history course which can be enriched by a consideration of relevant economic topics to a greater extent than one finds in the average high school American history text. Ideally, the teacher should have on hand at least one good textbook in American economic history and a typical basic text in principles of economics. These will provide more detailed accounts of the events and concepts mentioned in this manual. If it is not feasible for a teacher to sit with an economics principles text at his or her elbow, we recommend the use of the JCEE's book *Economics in the Curriculum (DEEP)* (New York: John Wiley, 1970), especially Part I, "Economic Ideas and Concepts," as a handy glossary of economic concepts. It presents a series of conceptual statements, expressed in simple terms and accompanied by examples, which explain each basic economic idea, show why the concept is important, and tell how it fits into the overall framework of general economic understanding.

Our economic history is exceptionally colorful, and a wealth of fascinating material can be found to spark student interest. Because of limitations of space, in this book we have not been able even to touch upon many of the most interesting events and people whose exploits enliven the pages of history. The teacher who will take the time to delve into American economic history will be rewarded with accounts of the attempt in 1869 by Jim Fisk and Jay Gould to corner gold, of the Erie Railroad scandals, of "wildcat" banking, of great labor struggles and countless other occurrences that had economic implications. If time permits, one can obtain much from biographies of outstanding labor leaders, businessmen, and inventors. In short, this book is nothing more than an outline—one must look further for important details.

We have divided American history into 21 topics and we have presented those topics in a chronological fashion, for the most part. This should make it easy to use this manual in conjunction with the typical high school history textbook.* Each topic is introduced with a brief account of the events of the period which had important economic aspects. Key economic terms are presented in **bold-face type,** and short definitions or explanations of these terms are given in most cases. Because some of the terms require more extensive discussion than would be possible in this small book, the teacher who is unfamiliar with the term is expected to use a standard economics textbook to acquire the necessary understanding. (This is the case, for example, with the laws of absolute and comparative advantage in Topic 2.) Of course, in almost every topic we could have included an even greater number of economic concepts. Furthermore, the placement of the concepts is somewhat arbitrary. The topic of monetary instability, for example, is one which pervades all of our history and thus we could have included inflation and/or deflation in any topic. We made our choices on the basis of the placement that seemed to provide the best opportunities for relating economic principles to historical events in an interesting and meaningful way. Often, the same economic concept will appear in several topics. Principles underlying trade, for instance, can be introduced in the very beginning and then repeated with increasing degrees of complexity throughout the course. In this way, the students will reinforce earlier learnings, proceed from the simple to the complex, and see how a basic analytical tool can be applied in a variety of situations.

Discussion questions follow the brief introduction to each topic. They vary in difficulty so that teachers should be able to select those best suited for their own classes. Of course, the teacher may wish to revise the wording, omit some and add others, and use them in a different order. Some questions are "fact oriented," but the facts elicited will invariably lead to a consideration of "how" or "why" and will require analysis. Many questions deal with content

*Most textbooks employ the chronological approach, although a few recent books have used the topical or topical-chronological organization. This manual can be used with either type.

found in most high school history texts and thus with material familiar to the teacher. The economic concepts, facts, problems or principles relating to some of the questions are self-evident from the wording, but in other cases they are not. Thus we have listed the relevant concepts in **boldface type** and preceded them by a black disc (●) for the benefit of the teacher where we thought that this might help.

Finally we offer a number of suggested activities for each topic. In this booklet, questions serve as springboards for students to plunge into investigation, inquiry and discovery activities of a wide variety of kinds. Since we are aware that students learn by observing, listening, thinking reflectively, and discussing their ideas with others as well as through the printed passage, we have included activities such as interviews, role-playing, films, filmstrips, talks, field trips, community resources, and visits to local museums and places of historic interest. A course in United States history for the 1970's should also make use of a variety of media including cartoons, simulation and games, folk songs, the popular arts and literature. It is, of course, expected that teachers will use news magazines, newspapers, the tape recorder, television, the overhead projector (transparencies of the home-made or commercial variety) and videotape, if available, to make economic history current and to facilitate the learning of concepts. Many contemporary American history texts have lists of novels that can be used to prove or illustrate a point. There is a whole literature of economics by chronology and topic that can be utilized for correlated book reviews in class or for individualized reports. We suggest some ways in which this can be done in the discussion questions and activities which accompany each topic. Publications like *Scholastic Teacher* also make helpful suggestions in this area.

Naturally, the teacher will select those activities which are best for a particular class and which, in the teacher's judgment, can best serve to achieve the aims of a given lesson or unit. No teacher of United States history would attempt to use more than just a portion of the variety of ways we suggest to make the economic content of the American history course come alive.

Some Notes on Methodology

The authors of *Teaching Economics in American History* have geared its content both to traditional and inquiry-discussion techniques.

Inquiry teaching is the essence of social studies methodology today. Of course, there is controversy as to what inquiry teaching really means. Some teachers believe that, when the teacher has a predetermined end in mind at which the students must arrive, it is manipulative and not true inquiry. Others think that, while the teacher ought to have some idea what should and could be engendered in the discussion, the teacher and students must both engage in goal-setting, be free to explore and investigate, and come to their own conclusions. In short, they believe that the role of the teacher should be primarily that of guide and resource person. In the paragraphs that follow, the authors present their view of inquiry methodology. We are aware, of course, that practically every social studies text in current print carries an explanation of inquiry and discovery techniques and that each teacher has his or her own eclectic system suited to particular classes and students. Nonetheless, we feel that our brief exposition, though it may be "old hat" to many social studies teachers, supplies a needed rationale for both the discussion questions and activities that comprise a sizable portion of this book.

Inquiry is a way of learning that is self-motivating. Students in the 1970's are interested in real problems of immediate concern to themselves and to society—problems such as poverty, racism, pollution and drug addiction. In a booklet such as this, devoted to economics in American history, a teacher can make the past relevant by using a yesterday-today approach. By interweaving the then and the now, the environmental battles of today can be compared with Theodore Roosevelt's crusade against the despoilers of his day. Just as Upton Sinclair's book, *The Jungle,* aroused public opinion that led to the passage of the Meat Inspection Act of 1906, so Rachel Carson's *Silent Spring* sparked the campaign against harmful pesticides. Of course, some of the serious problems of today—sexism, racism, crime and drug abuse—are predominantly social problems, but they do have economic aspects, and inquiry by its very nature is interdisciplinary in its approach.

In sharp contrast to expository teaching, which sometimes "spoon-feeds" the student everything that he is expected to know, inquiry and discovery—and the discussion it generates—places the responsibility for searching for "the answers" squarely on the shoulders of the students. Indeed, in an inquiry-oriented classroom, the questions asked and the procedures followed often are (and ought to be) more important than the answers.

In *Inquiry in the Social Studies Classroom: A Strategy for Teaching,* Barry K. Beyer says: "Inquiry teaching is creating and conducting learning experiences which require students to go through the same processes and to develop or employ the same knowledge and attitudes they would use if they were engaged in independent rational inquiry."* Obviously, inquiry teaching places a big responsibility on the teacher. Students must first be encouraged to sense and identify significant historical problems of an economic nature and then be guided to engage in a persistent, organized and serious search for satisfactory answers to these problems. In the process, the teacher must help the student to clarify and test the ideas that the student raises about the problem that he has tackled and assist him in making rational decisions on the basis of his personal values and the data at hand. Occasionally the teacher must prod the student with challenging questions. This kind of help is especially important if the student has grown accustomed to being told all the answers. Above all else, the teacher must encourage the student to set a goal for his inquiry.

Five possible goals, or aims, come readily to mind:

1. *Searching for a solution to a problem.* Can voluntary price and wage controls in peacetime check inflation?
2. *Answering a question.* Why has a military-industrial complex emerged in the United States since World War II?

*Barry K. Beyer, *Inquiry in the Social Studies Classroom: A Strategy for Teaching.* Columbus, Ohio: Charles E. Merrill Publishing Company, 1971, p. 53.

3. *Satisfying curiosity.* Why did President Nixon change his economic "game plan" in August 1971?
4. *Resolving a value conflict.* Is it right for the United States to discontinue aid to underdeveloped nations?
5. *Validating a generalization.* The consumer has been "the forgotten man" chiefly because the consumer wasn't adequately represented in Washington prior to the advent of Ralph Nader.

In the past, most teachers of United States history guided their students to arrive at logical, and largely predetermined, conclusions in terms of the factual and conceptual data that they had presented during the lesson. (In nearly all cases, of course, the teachers' conclusions were both logical and valid.) In genuine inquiry, however, most answers cannot be predetermined. Inquiry-teaching techniques do not envision a teacher leading students to set conclusions that the teacher wishes the students to reach. As a consequence, many of the questions that we pose in this booklet are open-ended. They are so phrased that the student must reach his own conclusions on the basis of data at his disposal. This does not mean, however, that inquiry-discussion techniques are designed to encourage aimless discussion and purposeless "bull sessions." Nor should teachers think of inquiry as a follow-up application for a two-week unit that the class has just completed. That would be misapplication of this teaching technique.

Authorities tell us that genuine inquiry contemplates the pursuit of knowledge in a specific social science using the tools and methods of the social scientists and arriving at verifiable conclusions in the process. While this is the ideal there are very real limitations of a practical nature to the achievement of this worthy goal at the secondary school level. It takes time for graduate students in economics to learn how to use the tools of the economist (including the mathematical). Can high school students really reach valid, verifiable conclusions on the basis of the often meager data available to them? Can they handle sophisticated statistics and complex economic documents? The answers are, of course, obvious. What we as teachers can, and should, tell our students is that they are engaging in inquiry and discovery *exercises* to try out analytical tools taught by the teacher and the textbook. Such exercises are the best way for students to acquire the flavor of economic research, experience in the use of the tools of the economist, and a taste of the excitement that an economist encounters at the cutting edge of the discipline.

Inquiry and discovery are inseparable. Inquiry encourages students to satisfy their curiosity and to learn on their own through problem-solving. Discussion enables them to clarify their views and to test their hunches through dialogue with their classmates and their teacher. Since the students are discussing controversial issues, the teacher must make sure that all sides of the controversy are fairly represented. One must also make it plain to the class that the emphasis of inquiry-discussion is on truth and not on winning the argument. The reward for both pupils and teacher will be a lively, purposeful learning experience. With students independently in hot pursuit of truth, teachers can at last serve in the roles they enjoy most—resource person, guide, mentor and, occasionally, "Devil's Advocate."

A purposeful interchange of ideas does not, of course, occur automatically. The teacher must first establish a democratic social climate in the classroom, which is characterized by worthwhile activity, individual initiative and freedom of expression. Such an atmosphere is absolutely essential in an inquiry-oriented classroom because students must be constantly challenged to prove their arguments and to defend their theses. They must also work together in friendly fashion, accept their fair share of responsibility, and look upon their teacher, by virtue of maturity and preparation, as the group leader. Only in a democratic classroom will the very act of airing opinions through honest discussion relieve tensions and reenforce social skills like tact, courtesy and the willingness to accept constructive criticism. Moreover, purposeful discussion builds respect for scholarship by requiring analysis, the citation of sources, accurate facts and pertinent quotations.

Worthwhile lessons are rarely the result of spontaneous generation; they are the outcome of careful planning. An inquiry-discussion lesson is no exception to this rule. To help the teacher achieve lively, purposeful inquiry-discussion, we are presenting four major guidelines:

1. *Create the right atmosphere.*

The first step in achieving effective inquiry-discussion is to establish objective standards for judging the rationality of the arguments and the validity of the positions taken by the students. It is best to arrive at such standards cooperatively through pupil-teacher planning for then the rules are based on the consent of the governed. Further, students must accept the fact that all opinions are not equally valid. Some opinions violate the spirit of a democratic society, our constitutional freedoms, our common humanity or our traditions. In addition, the class must be prepared to assume a questioning attitude toward sources of information and the interpretation of "the facts" (including the value judgments involved), as each of the classmates presents arguments. The students must understand clearly that inquiry-discussion is designed chiefly as an opportunity to develop and clarify their own views. In fact, the teacher as the group leader should point out from time to time that changing one's mind in the light of new evidence and valid reasoning denotes maturity, not inferiority.

2. *Prepare the class for productive discussion.*

The first step in stimulating productive discussion is to choose a suitable problem. A picture, quotation, cartoon or newspaper clipping will often arouse interest in the topic. Usually, a historic controversy can be revitalized by a "then-now" approach. Thus the encounters of the Women's Liberation Movement can be compared with the battles of the suffragettes, a current strike with a "classic" example of the past such as the Pullman Strike, and the activities of "Nader's Raiders" with the exposés of the Muckrakers of Theodore Roosevelt's day.

The second step is to brief the class on background information that pertains to the question under discussion. This can be accomplished in three ways: (1) by assigning

relevant reading or by reviewing pertinent information, (2) by showing a picture, cartoon, film or filmstrip that depicts the highlights of the issue under review, and (3) by distributing material or projecting this information via a transparency.

3. *Guide the discussion.*

The teacher as group leader must take an active part in guiding the discussion toward educationally worthwhile ends. A successful discussion can be achieved by doing the following:

First, the teacher should orient and motivate the discussion by focusing on a specific, concrete aspect of a topic, issue or dilemma with which the students are emotionally involved. The classroom setting is important. Often the very arrangement of the seats and table will help to create the proper psychological and physical climate for inquiry-discussion.

Second, the teacher must state the problem concisely and set the boundaries by analyzing the nature of the conflict. An astute teacher will arrive at these matters through class consensus, knowing that only if this has been done first can one direct attention to the underlying economic principles, values, concepts and theories involved in the problem in the inquiry-discussion session that follows. Moreover, in formulating the aim of the discussion as a problem in the form of a question, the students will gain valuable experience in such critical areas as the following: how to judge, how to ask questions, how to seek information, how to analyze, and how to evaluate.

Third, the teacher must be especially active and alert during the elaboration of the arguments. This phase of inquiry-discussion involves the use of facts, quotations and sources, and the interaction of the class. It constitutes the very heart of the discussion. Here the teacher should place emphasis on points of agreement as well as difference. Here the students will see once again that not every issue has a "correct" answer, that there are "trade-offs," and that the principle of opportunity costs has not been repealed.

The knowledgeable teacher will encourage students to introduce historical analogies. For example, the rights of neutrals were involved in all three world conflicts in which the United States became embroiled, beginning with the Napoleonic wars. Analogies can be compared and contrasted. Students should be urged to look for unifying economic principles which can be derived or illustrated by analogy.

In the course of the discussion, the teacher may occasionally engage a student in Socratic dialogue in order to expose inconsistencies, myths and stereotypes. Of course, all members of the class should participate in the discussion. No small group of glib or articulate students should be permitted to dominate. There must be no "prima donnas" either. Finally, we are old-fashioned enough to believe that, to be effective, every lesson (even a discussion) should be summarized.

At its conclusion, each inquiry-discussion session should be evaluated. Ideally, even run-of-the-mill inquiry exercises should be followed by some sort of planned action even if it is only writing a letter to an editor or adopting a resolution that states the consensus of the class.

4. *Choose the formal or informal discussion technique best suited to the purpose.*

We have already pointed out that many of our discussion questions and activities for investigation, inquiry and discovery for the twenty-one topics that follow can serve as springboards or motivations for inquiry-discussion. Some of the best class discussion is informal dicussion that is led by a student who has made special preparation for the session, or by the teacher. Such discussion flourishes in enthusiastic committees and in "buzz sessions" (in which the class is divided into groups of six or fewer). Small group discussion should, of course, be summarized for the benefit of the entire class by asking a member of each committee or group to report to the class in plenary session in the closing minutes of the class period.

"Structured" discussion—panels, roundtables, forums and town meetings—should be followed in all cases by open class discussion of the topic at issue and by class evaluation of the presentation in terms of the criteria previously agreed upon. Experience indicates that successful panels, forums and the like are more successful if the participants volunteer and if rigorous preparation precedes the actual presentation.

Inquiry-discussion can truly be a "seed bed of thought," but only if it is properly motivated, structured, prepared and pointed toward finding solutions to genuine socioeconomic or historic economic problems. It can also be a waste of time if it is dominated by a handful of glib, opinionated, misinformed, irrational "windbags" who engage in empty forensics. The authors maintain, however, that by adhering faithfully to our four guidelines, a teacher can steer clear of rocks and shoals and chart the course to arrive quickly and profitably at one's planned destination.

TOPIC 1

The Explorers and the Early American Colonies

Economics Facts, Concepts, Principles or Problems

Economic motivation of voyages
Define economics, goods, services, wealth
Profit motive
Importance of labor, specialization and productivity

Most teachers of American history start their courses with a unit on the explorers and the early American colonies. This period of history presents opportunities to include a number of important economic facts and concepts. It should be realized that by including economics in a history unit one does *not* sacrifice other content—on the contrary, the relevant economic concepts will greatly enrich the unit and will help the teacher to relate history to the present. Because many (if not most) students fail to see the value of history, it is incumbent upon the teacher to show them that a knowledge of history is important because it helps us to understand current problems and issues. For example, we are better able to understand the current unrest among black militants if we know something about the history of the blacks in the United States and how their history compares with that of other minority groups. One can have better understanding of our governmental system if one knows how and why the federal system developed.

Comparisons can be made between the explorers in early American history and space exploration today. A basic economic problem is that productive resources are scarce relative to the demand for goods and services that can be created with those productive resources. The governments that are sending men to the moon or exploring space today are using resources that could be employed in the production of something else—that is, the **real cost** of space exploration is the goods and services being sacrificed. It is hoped, of course, that there will be a pay-off in the near future. Already we are reaping many benefits from the space program—communications satellites, better weather forecasting, and even improvements in medical technology, to name a few. The rulers of old who sent explorers to the New World likewise expected a return on their **investment.** In short, there were economic motivations behind the voyages of discovery. Students should know and understand these economic factors.

Economics can be defined as the study of those principles which relate to the allocation of scarce resources among competing goals, or the study of man's activities in satisfying his wants and needs. It deals with the way in which goods and services are produced, distributed and consumed. This simple definition (along with definitions of the terms goods, services, scarcity, resources, allocation, production, distribution and consumption) should be presented to the class early in the course. Illustrations from student experience can be given. For example, the teacher might ask the students to list things that they would like to have. The student who would like to have an automobile and would also like to spend the summer in Europe, but who cannot afford both, must decide between these competing goals. If the student chooses the car, the **real cost** includes the trip to Europe that he sacrificed. It can also be shown that the capital, labor and material used in producing the automobile could have been used for the production of some other item. The real cost of the car, then, is the goods and services that could have been produced with those same resources.

The rulers of Spain and Portugal who agreed to finance explorations certainly had economics in mind. These nations had been buying the products of Arabia, India and China. It was realized that through trade we can increase our **level of living** by having a greater variety of goods. The journeys were difficult and costly, however, and the rulers of Spain and Portugal were seeking safer and cheaper means of reaching the East. They expected that the benefits to be derived from the voyages would eventually exceed the costs of exploration—although the term **"benefit-cost analysis"** had not yet been invented.

The discovery that gold and silver existed in abundance in parts of the New World induced further expeditions. The lust for precious metals can be discussed in class with emphasis upon the nature of wealth. By economic definition, **wealth** is not just an abundance of riches but is anything useful—land, crops, machinery, natural resources and the like. Perhaps Spain gained some temporary advantages through her good fortune in finding gold and silver, but in the long run the furs, timber, fish, iron ore and good farm land discovered by other nations more than compensated for the failure to find precious metals. Students should understand, then, that there can be a difference between **real wealth** and **money wealth.** For example, note the pathetic effort of the first Jamestown settlers (1607) to find gold at the expense of the production of goods that would have had much more practical value. (All but 38 of those first 104 settlers died within a year.) Upon taking control of the Jamestown colony, Captain John Smith stated an important economic principle—"Nothing is to be expected thence but by labor."

There were other economic lessons in the Jamestown experience. Under Smith's direction, houses were built, a

well was dug, the ground was "digged and planted," corn was cultivated, and "pigs and chickings" were raised. The colonists began to manufacture a variety of products, including tar, pitch, soap, glass and fish nets. It appeared, however, that they were attempting to do too much with their existing productive resources. John Rolfe had the answer—**specialization.** First, Rolfe noted that smokers in England preferred the "Spanish" tobacco grown in Trinidad to the Indian tobacco of Virginia. The greater demand for the "Spanish" tobacco resulted in higher prices for that type. A piece of land was set aside for Rolfe's experiment, and it was found that the "Spanish" type grew better than the native Indian tobacco. When samples were sent to London, experts declared the tobacco to be superior and offered a high price for it. Here we have a good illustration of how **consumer demand** can help direct production. Virginia's productive resources were quickly shifted to tobacco production, as guided by the "money votes" of the London consumers. By specializing, the Jamestown colonists became more efficient producers and the colony began to prosper. (Of course, there are other cases where nations or areas need to depart from one-crop or one-product specialization and diversify their economies.)

The **profit system** can be taught at this point in history. It was the prospect of profit that led the colonists to concentrate on tobacco production. Profits should be defined at this point as the amount of a firm's revenue that remains after all factors of production have been fully compensated. (Consult a standard textbook in principles of economics for a more detailed discussion of how profits are computed and be sure to distinguish between the economist's definition of profit as compared with that of an accountant. For example, in computing total costs the economists will include **implicit costs,** such as the rental value of land that the proprietor of a business owns himself and uses in his production process.) The **profit motive** was a factor in the founding of the early English colonies, and in the profit-seeking activities of the businessmen of the Plymouth Company and the London Company.

Although the London Company lost money, there are some good lessons in the economic activities of Massachusetts settlers. They wasted no time searching for gold, but realized from the start that survival and progress depend upon work and production. The importance of **productivity** can be shown here. The efforts of the Pilgrims to increase their productivity could lead to some interesting discussions. Why did communal planting fail, for example? Why did they obtain better results when every man owned and cultivated his own fields? (Similar results are being obtained in the Soviet Union, where the output per man-hour is vastly greater on privately owned and cultivated plots than on communal property.) It was also found in the early American colonies that the work of indentured servants was not as efficient as that of free labor. **Incentive,** then, is an important factor.

DISCUSSION QUESTIONS

Economic concepts which may not be self-evident from the wording of the questions are listed in bold-face type and preceded by a black disc (●).

1. The explorers of the Space Age are often compared with the explorers of the New World.
   (a) What are some economic reasons for taking the risks of exploration?
   ● **Profit motive; returns on investment; human wants are unlimited but productive resources are not.**
   (b) How were the explorers of old like today's spacemen? How did they differ?
   (c) Discuss important changes in technology and capital accumulation that were needed before exploration was possible either in the past or in recent times.
   ● **Importance of technological developments and of accumulating capital to support innovation and exploration.**

2. Explain the effects of exploration, discovery and colonization on:
   (a) the Indian way of life;
   (b) standards of living and prices in Western Europe;
   (c) the Italian cities;
   (d) the Atlantic powers of the 16th and 17th centuries (Spain, Portugal, England, France and the Netherlands). How has the technology of the Spage Age affected *your* life?
   ● **Benefits derived from the discovery of new resources and from trade. How technological developments related to space exploration affect us all.**

3. One magnet drawing English colonists to America was the existence of cheap land. How might you have satisfied your craving for land if you had been:
   (a) a wealthy nobie or merchant.
   (b) an indentured servant with his indenture completed.
   (c) a member of a New England church congregation settling in a new area?
   ● **Economic motives for migration. Importance of land as a productive resource.**

4. Captain John Smith said that in Jamestown "nothing is to be expected . . . but by labor."
   (a) Is the above statement true today?
   ● **Importance of labor in production.**
   (b) What is division of labor?
   ● **Specialization.**
   (c) How does division of labor increase production?
   ● **Specialization and efficiency.**
   (d) Why did a natural division of labor develop between the "mother country" and the colonies?

- **Each increases its productivity by specializing in what it does best.**

5. The colonists of Jamestown soon began to specialize in the raising of high-grade Virginia tobacco.
   (a) Why did they specialize in growing tobacco instead of trying to produce everything for their needs?
   - **Efficiency in allocation of productive resources.**

   (b) How was the price of tobacco determined in the London market?
   - **Demand and supply.**

   (c) Why is it sometimes unwise to specialize in only one or two products?
   - **Heavy reliance on one product can be devastating if the market for the product collapses.**

   (d) Why is it better for you to specialize when you start earning your own living than to be a jack-of-all-trades?
   - **Specialization leads to greater efficiency in the chosen occupation; efficiency leads to greater output; greater output leads to higher earnings.**

6. (a) Explain how subsistence farming differs from farming for the market.
   (b) Discuss the extent to which each of the following was important in developing market farming in the South in the colonial period: (1) geography; (2) existence of free land; (3) availability of money; (4) demand for staples (tobacco, rice, cotton).
   - **Importance of market demand in guiding output and the allocation of resources. Profit motive. Factors essential for production.**

7. According to mercantilist theory, gold and silver are the most important form of wealth and the amount of precious metal possessed by a nation is the major measure of its wealth.
   (a) How does the economist define "wealth"?
   - **Useful goods and services are wealth.**

   (b) Why was owning a big tobacco crop considered "wealth" in Jamestown?
   (c) Are stocks and bonds wealth? Explain your answer.
   - **Distinguish between money wealth and real wealth—goods and services.**

8. Explain how the economy of Western Europe was affected by the gold and silver brought by Spain from the New World in the 16th century.
   - **Increase in the money supply, when goods and services do not increase proportionately, causes inflation—rise in average prices.**

9. Explain why the Indians who inhabited North America existed at a low level of living compared with the poorest Americans today, and why many Indians still have low levels of living today.
   - **Importance of technology and "knowhow."**

10. Read to the class Adam Smith's classic description of specialization in a pin factory as a springboard to a discussion of the advantages and disadvantages of division of labor.

11. Explain how the economic pressure of a growing population on relatively scarce resources in England influenced Englishmen to seek a better life in the New World. If you were an Englishmen seeking a better living today where would you go? Why?
   - **Economic motives for migration. Relationship between scarce supply of resources and growing human wants.**

12. How did the early colonizing and trading companies resemble modern corporations? How did they differ?
   - **Minimizing risk by pooling resources.**

13. What do economists mean by productivity?
   - **Productivity is the amount of goods and services produced by productive resources during a specified period of time.**

   (a) What did the Pilgrims do to increase their productivity?
   - **Specialization.**

   (b) How can you, as a student, increase your own productivity?

14. What is meant by "incentive"? Why is incentive considered important in economics?
   (a) Why did indentured servants, on the whole, have greater incentives than black slaves?
   - **Private ownership and personal gain as economic incentives.**

   (b) What is generally considered the most powerful incentive in a free market economy? Why?
   - **The profit motive.**

   (c) How do profits help to guide and direct economic activity?
   (d) To what extent does the profit motive exist in communist countries?

15. Why did communal planting fail in Jamestown?
   - **Individual vs. collective enterprise.**

   (a) Why do Russian peasants exert more "tender, loving care" on their own garden plots than on the collective farm as a whole?
   - **Private property and individual gain as economic incentives.**

   (b) Would you join a farming commune in the United States? Why? Why not?
   (c) Why do some people remain in business (as in small candy stores) when they barely make a living?
   - **Noneconomic motives, such as desire to be one's own boss; prestige of being owner of a business; enjoying one's work.**

ACTIVITIES

1. *Individual Research Topics:*
   (a) To what extent was the European manorial system introduced in colonies such as New York, Pennsylvania and Maryland?
   (b) How did the passage of the Elizabethan Poor Laws affect colonization in America?
   (c) Were the Navigation Acts and Acts of Trade a benefit or a burden to the American colonies? Why? Why not?
   (d) Which items in the list of 27 grievances in the Declaration of Independence were economic in character? Explain these.
2. *"Ads" for Settlers:* Ask the students to prepare handbills or newspaper "ads" to attract settlers by describing the advantages of living in the New World.
3. *Local History:* Have the students consult local or state histories to learn about and report on local vocations, trades and industries in their localities during colonial times.
4. *Role-Playing:* Stage a sociodrama in class to evaluate British mercantile policy. The "cast" might include a colonial merchant, a ship owner, a housewife, a British customs official and a farmer (who must buy only British products).
5. *Time Line:* Have the class construct a time line depicting "the important economic events leading up to the American Revolution" perhaps in the form of a horizontal "mural," consisting of pictures drawn by a committee of students on a long strip of paper.
6. *Diary:* Ask the students as a special assignment to write entries for ten days in the life of a frontiersman, a colonial farmer or a merchant.
7. *Cartoons:* Have the students draw cartoons reflecting the economic concerns of the colonists: the tax collector, the need for capital, the dangers and hardships of pioneer farming.
8. *Town Meeting:* Have the class imagine itself as a town meeting in New England discussing a question of current economic interest: the care of the poor, or the imposition of taxes to build a new elementary school or a bridge over a stream.
9. *Group Reports:* Ask committees of students to investigate the following topics:
   The "Bread Colonies"
   Why New Englanders turned to the sea
   The triangular trade in fish, rum and slaves
   The labor system in New England
   From indentured servant to slave in the South
   After the committee members have discussed their topic among themselves, let them report their findings to the class as a whole organized as a Seminar on Colonial Economic Life.
10. *Reports on Visits:* Ask a student who has visited Colonial Williamsburg, Sturbridge, or other places of historical interest to report on vocations and trades during colonial times. Brochures, snapshots and booklets can be used to illustrate the talks.
11. *Sociodrama:* Let the class imagine that they are adventurous Europeans living during the 17th and 18th centuries. Select teams of students to study the economic resources of the various colonies by consulting reference works and their textbooks. Then have them start a promotion campaign to convince their neighbors to embark for the New World. Each team might consist of a captain of a sailing vessel, a ruler or proprietor, a representative of a trading company.
12. *Panel Discussion:* How economic forces shaped the lives and the economy of the New England, the Middle and the Southern Colonies.
13. *Picture Display of the Colonial Period:* Using an opaque projector, have the students project paintings and photographs reproduced in *American Heritage Magazine* (and its special topical volumes) to illustrate economic activities in the New England, Middle and Southern Colonies during colonial times.
14. *Use of Local Museum Resources:* Take the class on a visit to the local museum of the local historical society to view exhibits of the colonial period—looms, spinning wheels, agricultural implements, household articles, etc.
15. *Glossary:* Encourage each student to keep a card file on new economic terms with their definitions. Keep the cards in alphabetical order for ready reference.
16. *Dramatization:* Have a committee of students write a skit telling why the early settlers decided to follow John Rolfe's suggestion that they specialize in tobacco growing, using seeds of the "Spanish variety."
17. *Map Skills:* Prepare mimeographed outline maps of the Eastern seaboard and the West Indies showing the trade routes between the American colonies and the products traded.
18. *Writing a Charter:* Have the students draw up an imaginary royal charter for a company like the Plymouth or London Company which expect to settle colonists in America. Include such items as the purpose of the company; the rights of the stockholders; and the privileges, obligations and responsibilities of the colonists. On the basis of the charter, discuss possible conflicts of interest that might arise.
19. *Chart:* Have the students summarize in chart form the advantages and disadvantages of the Navigation Acts and Acts of Trade for (a) the mother country (b) the colonies.
20. *Personal Letter:* As a colonist, have a student or students write a personal letter to a friend in London complaining about British restrictions on colonial trade and suggesting remedies for the situation.
21. *Floor Talks:* Assign oral reports on the following topics to interested students, and have them give brief floor talks when their topic comes up in the course of the unit on the Colonial Period.
   Land and Water Transportation in the Colonial Period
   The Joint Stock Company, Ancestor of Today's Corporations

Immigration to the New World in the 18th Century

Slavery in the Colonies and Europe in the 18th Century

Adam Smith's Criticism of Mercantilism

22. *Simulation:* Explorer I (Academic Games Associates). Have the students engage in the exploring process, giving them the thrills and disappointments of the early discoveries of North America. The students participate in small group discussion and decision-making. Playing time: 15-20 fifteen-minute periods. Grade level: 4-8.
23. *Game:* "Production" (Good Time Educators). Production simulates the processes and decision-making involved in costs, prices and allocation of resources in a free competitive market system. Playing time: 2-4 hours. Number of players: 10-40.
24. *Game:* "Market" (Science Research Associates). Game demonstrates how price is established through changing demand and supply conditions. Grade level: Senior High School. Playing time: 2-5 hours. Number of players: minimum of 6.
25. *Game:* "Market Game" (Joint Council on Economic Education). Game is based on the operations of supply and demand in a competitive market. Grade level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 8-30.
26. *Motion Picture:* Show *Jamestown* (22 minutes; Encyclopedia Britannica Films) to review the settlement of Jamestown and the early struggle of the colony for existence.
27. *Recording:* Play *Songs of the Colonies* (Encyclopedia Films)—ballads and folksongs sung by Burl Ives—to set the mood for the discussion of the lives and the problems faced by the colonists.
28. *Filmstrip:* Use the LIFE filmstrip, *Age of Exploration,* to make the era of discovery come alive.
29. *Models and Drawings:* Talented students may be interested in making models or drawings, and in some instances dioramas, of pioneer cabins, plantation homes, forts, stage coaches, tools and colonial articles of furniture and clothing.
30. *Motion Picture:* Show *Profit System* (12 minutes; National Education Films) to emphasize the role of profits in the American economy.
31. *Sound Filmstrip:* Show *Profits: Fuel of the Economy* (American Economy Filmstrip Series—McGraw-Hill) to introduce this basic economic concept.
32. *Filmstrip:* Show *Basic Economic Concepts* (Economic Series, Set Number 1—McGraw-Hill) to introduce the allocation problem.
33. *Filmstrip:* Show *The Science of Choice* (World of Economics Series—McGraw-Hill) to introduce the central economic problem of scarcity of resources relative to human desires.

TOPIC 2

The American Revolution

Economic Facts, Concepts, Principles or Problems

Free enterprise and free trade versus economic controls and Mercantilism
Taxation
Supply and demand
Monopoly
Free enterprise

THE economic causes of the American Revolution are mentioned in nearly all United States history textbooks, but too often these economic issues are treated in a purely factual or descriptive way. The teacher who will take the trouble to deal with the basic economic principles underlying the economic aspects of the American Revolution will not only make the subject more meaningful to the students but will find that this makes it possible to relate the events of the Revolutionary period to current issues and problems. Indeed, much of the current unrest throughout the world can be traced to some of the same economic difficulties that fanned the flames of revolt in the American colonies.

The American colonies had enjoyed a considerable amount of economic freedom. (Contrast this with the Spanish colonies, for example, where the death penalty could be imposed for violations of the extremely rigid restrictions on trade.) The advantages of **free trade** and **economic specialization** are well illustrated by the fishing, ship-building, lumber production and fur trade of the colonists, for these activities enabled them to exchange their output for money or for goods produced elsewhere. The effects of increasing British restrictions on colonial trade and of increasingly effective enforcement of those **mercantilist policies** were deeply felt in the colonial economy. Restrictions on trade are causes of great concern today as well. Note, for example, the problems we have had in recent years in regard to our economic relations with the Common Market and Japan. The **tariff** and other devices for impeding trade can be discussed at this point, with the leading arguments for and against trade restrictions being examined and debated. The **principle of absolute advantage** and the **law of comparative advantage** may be used to help analyze these conflicting views. (Among the views to be taken into account are those of professional economists, the AFL-CIO, the textile and steel industries, import-export industries, banks involved in foreign exchange and others who have an interest in the issue of free trade vs. restrictions. It might be interesting to compare these views with those expressed during the period leading up to the American Revolution.)

Taxes also played a role in bringing things to a head in the colonies. Here, one might examine the various purposes of taxes and the kinds of taxes that exist. Students should understand that they use many goods and services provided by government (roads, schools, public libraries, police and fire protection, public health facilities and the like), and that taxes are necessary to pay for these things and to meet the general costs of government. They should understand, however, that taxes can also be used for other purposes. The British tax on foreign goods was designed to discourage the American colonists from purchasing those goods, so that British merchants would face less competition. This, of course, increased the **cost of living** in the colonies.

The effects of different types of taxes can be examined so that students will understand that **excise and sales taxes** are generally *regressive*—that is, they tend to take a greater percentage of the income of the poorer person than of the rich person. For example, let us say that Mr. Adams has a weekly income of $500, while Mr. Brown earns only $100. They both purchase refrigerators costing $200 plus a five percent sales tax, or $10. Let us assume that these refrigerators are necessities for both men. Now, the $10 tax represents only two percent of Mr. Adams' weekly income, but it is *ten* percent of Mr. Brown's income. Thus, the tax is regressive—it takes a greater percentage of the poorer man's income. Other types are *proportional* (taking the same percentage of income) and *progressive* (the higher the income, the higher the percentage paid). There will be many opportunities throughout the U.S. history course to deal with the principles of taxation. The basic principles should be introduced during the study of the background of the Revolution, however. More detailed analysis can be made later, as taxation has been a continuing issue throughout our history.

The colonial **boycott** on British goods presents an opportunity to discuss this technique of applying economic pressure. How effective can a boycott be? In what ways was the colonial boycott similar to more recent boycotts, such as some consumer attempts to bring prices down by boycotting supermarkets, black boycotts of white-owned stores to help bring about racial justice, and American boycotts of goods produced in Communist countries? In examining the effectiveness of boycotts, one can delve into such economic topics as the nature of **demand, needs and wants,** and business **profits.** Attempts to boycott such

needed items as food are probably less effective than boycotts of luxury items which the consumer can do without—in more technical terms, the **elasticity of demand** is an important consideration. (In simple terms, the demand for a product or service is *elastic* if sales change greatly. For example, if the price of fur coats rises by 10 percent and the sales drop by a greater percentage—say, 25 percent—then demand for fur coats is said to be elastic. Demand for necessities tends to be *inelastic*. Suppose that the price of milk rises by 50 percent. The percentage drop in sales will be less—say, only 12 percent.) If the teacher wishes to introduce supply and demand curves at this point, the boycott may illustrate the effect of shifting the demand curve to the left. Even if it is not deemed desirable to use graphs, however, a simple supply and demand analysis can be made and the law of supply and demand can be presented in an elementary fashion.

The problem of **monopoly** was an important one in the 1770's, and of course there is much concern today over **business concentration** and its effects upon the consumer. (By definition, monopoly means that there is only one seller of a product or service. This is hard to find in reality, but business concentration in the form of **oligopolies** —a few sellers—is quite common today and some of the economic effects are similar to those that would stem from a pure monopoly.) When the British Parliament in May of 1773 passed a law enabling the British East India Company to sell tea in America at lower prices than American merchants could profitably charge, the British company had a monopoly on the sale of tea. In this case, the consumer of tea seemed to be the winner, but angry colonial merchants were up in arms. The Boston Tea Party and similar incidents in Maryland, New Jersey and New York were the result. The punitive laws then passed by Parliament included a ban on trade with any nation except Britain and the British West Indies. Note the economic grievances cited in the Declaration of Independence.

The year 1776, the year in which American independence was declared, was also the year in which Adam Smith published his famous book *The Wealth of Nations.* Smith argued against mercantilism in favor of **free trade.** It could be interesting to have the students read Smith's book and indicate in what ways his arguments might have applied to the economic situation in the American colonies. Smith's theories can serve to inform the class of the essential tenets of **capitalism** or **free enterprise.** It should be noted, of course, that although the free enterprise system forms the basis of the American economy, there have been many changes and modifications so that we have, in effect, a **mixed economy** which contains elements of other systems.

Value questions need not be ignored in this phase of the course. Many stimulating discussions should develop from such questions as the following.

- ☐ Are economic freedoms worth fighting for?
- ☐ Is any one economic system (such as capitalism) superior to all others?
- ☐ When the economic interests of different groups clash, how do we decide which group should have priority?

DISCUSSION QUESTIONS

Economic concepts which may not be self-evident from the wording of the questions are listed in **bold-face type** and preceded by a black disc (●).

1. Americans are proud of the American system of free enterprise which has helped to create the highest standard of living the world has ever known.
   (a) Define freedom of enterprise.
   - **Private ownership; profit motive; competition; minimum of government interference.**

   (b) How does (1) the individual, and (2) the community benefit from free enterprise?
   - **Lower prices and costs; efficient allocation of resources.**

   (c) How did mercantilism differ from freedom of enterprise?
   - **Government intervention and control; trade restrictions; misallocation of resources.**

2. The United States today is a "common market" of 50 states that enjoy the benefits of free trade.
   (a) What is free trade?
   (b) What is a common market?
   - **Absence of trade barriers; common trade policy toward nonmembers.**

   (c) Discuss the benefits we enjoy because free trade prevails among the 50 states.
   - **Economic integration; specialization and exchange; efficient allocation of resources.**

   (d) If trade is so beneficial, why do so many countries impose tariffs on foreign goods?
   - **Protection of domestic industries and workers from foreign competition.**

3. American colonists objected to British controls on colonial trade and industry.
   (a) Why did the colonists oppose tariffs and excise duties on imports?
   - **Effects of tariffs and duties on prices of products.**

   (b) Why did they oppose monopolies, such as the tea monopoly enjoyed by the East India Company?
   - **Effects of monopolies on consumer prices and on potential competitors.**

   (c) If you lived in Boston in 1773, would you have participated in the Boston Tea Party? Defend your answer.
   (d) Why were the British Navigation Acts and Acts of Trade resented by some Americans?
   - **Effects of trade barriers on commercial interests.**

(e) In what ways did the American colonists benefit from the Navigation Acts?

4. Why did the colonies develop an efficient merchant marine but few thriving manufacturing industries?
   - **Efficiency in the allocation of productive resources; effects of government policies.**

   (a) Why did England encourage colonial production of pig iron?

   (b) Why was England opposed to colonial manufacture of finished iron products?
   - **Protection of domestic industries; need for raw materials.**

5. Show how the growth of American colonial trade and industry increased the circular flow of goods, services and money.
   - **Interdependence; specialization and exchange.**

6. "The intention of British mercantilist regulations was not so much to interfere with economic activities of the colonies as to build up British commerce and industry." To what extent do you agree or disagree with this statement? Why?
   - **Mercantilist theory; importance of commerce and industry; economic interdependence.**

7. One of the basic causes of the American Revolution was the mercantilist policy.
   (a) What was the purpose of mercantilism?

   (b) How did mercantilist policies affect the colonies?
   - **Barriers to economic growth and development; inefficient resource allocation.**

   (c) Is mercantilist theory sound? Defend your answer.

   (d) To what extent is mercantilism practiced today?
   - **Tariffs, quotas, other trade barriers and their economic impact.**

8. The American colonists enjoyed a considerable amount of economic freedom, especially before the French and Indian War.
   (a) If you were an American colonist living in New York in 1750, what economic opportunities would have been open to you?
   - **Free enterprise; freedom of contract; free markets; competition; profits.**

   (b) Contrast the advantages of free trade and economic specialization that you might have had with the restriction on trade in the Spanish colonies.
   - **Specialization and exchange; efficient allocation of resources; effects of trade barriers.**

9. Restrictions on trade have always been of great concern.
   (a) How did the Americans react to increasing British restrictions on colonial trade and increasingly effective enforcement of mercantilist policies on the eve of the Revolution?
   - **Effects of trade barriers on consumers and merchants.**

   (b) Explain how increasing competition from Common Market countries (such as Germany) and from Japan has caused problems for American manufacturers, workers and farmers in recent times?
   - **Effects of foreign imports on domestic markets.**

   (c) If West Germany could produce both cars and wine more cheaply than France, why might Germany still decide to specialize in auto production and buy wine from France?
   - **Laws of absolute advantage and comparative advantage; specialization and exchange.**

   (d) How does a comparative advantage in trade differ from an absolute advantage?

10. Although tariffs are Federal taxes on imports, one politician has referred to the tariff as "a local issue." A person's views on trade often depend upon what is produced in his or her particular area. Explain how the views of the following might differ on the protective tariff: professional economists; leaders of the AFL-CIO; manufacturers of textiles and steel; export-import industries; and bankers involved in foreign exchange.

11. England's debt rose by about £70,000,000 during the French and Indian War.
   (a) How did that war tend to bring the mother country and the colonies together?

   (b) How did the debt affect Britain's taxing policies toward the colonies?
   - **Cost of war and of government; taxes as a source of revenue.**

   (c) How did the American colonies and England need one another before the French and Indian War? After the war?
   - **Economic interdependence; specialization and exchange.**

12. Was Britain's new economic policy after the French and Indian War (which discarded "salutary neglect" for "sharing the tax burden") justifiable? Explain.
   - **Cost of government; various types of taxes; various uses of taxes; regressive, proportional, and progressive taxes.**

13. The colonists resented the Tea Act because it gave the East India Company a monopoly on the sale of tea.
   (a) What is a monopoly?

   (b) Why do most Americans dislike and sometimes fear monopolies?
   - **Effects of monopolies on prices, output, the allocation of resources.**

   (c) Are monopolies a menace to our free enterprise economy today? Explain your answer.
   - **Arguments for and against business concentration; government control of monopolies.**

14. What is a boycott? Why can it be an effective economic weapon?
   (a) Why did the American colonists boycott British goods before the Revolution?
   - **Demand; elastic and inelastic demand; profits; economic pressure.**

(b) If consumers in your area boycotted food stores, would you join them? Explain your answer.

15. Are taxes levied *solely* to obtain revenue to run the government? Explain.
    - **Use of taxes to control imports (example: tariffs); redistributing income through the use of a progressive tax.**

    (a) How does a progressive tax differ from a proportional tax?

    (b) Under what conditions does a tax become regressive?

16. In what ways were the causes of the independence movements in Asia and Africa similar to the causes for revolt of the thirteen colonies? How did these revolutionary movements differ?
    - **Mercantilism; economic imperialism; economic exploitation; rising expectations in underdeveloped areas.**

17. How did the Revolutionary War affect American economic growth? How did the Revolution affect each of the following: westward expansion; household industries; manufacturing; farming; foreign commerce; land ownership and land tenure policies?
    - **Economic effects of wars; factors influencing economic growth; economic independence.**

18. Adam Smith's *The Wealth of Nations* and the Declaration of Independence were issued in 1776, and both are called "milestones" on the road to freedom. Do you agree? Justify your answer.
    - **Mercantilism; free enterprise; laissez faire; economic freedom; trade.**

ACTIVITIES

1. *Sociodrama:* Ask a student to imagine he is a ship owner, another a distiller of rum, a third a housewife, and a fourth a plantation owner in the British West Indies to testify before the Board of Trade and Plantations on the wisdom of establishing free trade between the British colonies in America and the French West Indies.
2. *Debate:* Resolved: That the principal causes of the American Revolution were economic in nature.
3. *Editorials:* Divide the class into American and British newspapermen and women. Ask them to write editorials from the British or American point of view on one of the following:
   Boston Tea Party
   Stamp Act
   Tar and Feathering of a Revenue Agent
   Salutary Neglect
   Townshend Acts
   Sons of Liberty
4. *Chart:* Make a chart listing the acts passed by the British Parliament (or proclaimed by the Crown) from 1650 to 1775 in the name of Mercantilism or imperial defense. Include the date and provisions, and indicate whether the act or action was favorable or unfavorable to the colonies.
5. *Brief:* Prepare a brief maintaining that the British Parliament was legally within its rights in enforcing Mercantilism and the new economic policy established after the French and Indian War.
6. *Editorials:* Write an editorial for a 1774 issue of a colonial newspaper demanding "No Taxation Without Representation" or one entitled "Ungrateful Children" for a London newspaper.
7. *Role-Playing:* Set up a trial for a smuggler caught by a customs agent for violating the Sugar Act. Let one student play the customs officer, another the smuggler, a third a judge, and the remainder of the class the jury. In arriving at the verdict, the class will have explored the issues involved.
8. *Map:* On an outline map of the world draw a pictorial or diagrammatic representation of triangular trade routes. Use arrows to indicate the direction of the flow of imports and exports, and label the principal ones.
9. *Floor Talk:* Make a transparency of the map (above) and present a floor talk on the relation of the triangular trade, rum-making, and smuggling to the theory of Mercantilism.
10. *Panel Discussion:* Have two members of the panel investigate and report on the "necessity" of the British plan of taxation as reflected in the Grenville and Townshend policies and two members do the same on the "stupidity" of those policies.
11. *Individual Research:* Have a bright student investigate the validity of the economic grievances among the 27 grievances in the Declaration of Independence by citing historical evidence in support of, or lack of support of, the contentions.
12. *Cartoon:* By drawing a cartoon or other graphic means, show the economic, political and social significance (or results) of the American Revolution.
13. *Review:* Ask the class to prepare five questions which they believe would constitute a fair, comprehensive test of the economic causes and results of the American Revolution.
14. *Debate:* Resolved: That it was inevitable that the thirteen American colonies should become "free and independent states."
15. *Time Line:* Draw a time line emphasizing the main economic legislation and events that led to the American Revolution.
16. *Role-playing:* A group of Americans are discussing the Declaration of Independence in a tavern. Select students to express the views of a wealthy landowner, a ship owner, a merchant, a housewife and a farmer regarding the wisdom of the proclamation.
17. *Game:* "Colony" (Science Research Associates). Game focuses on the economic conflict between England and the American colonies before the Revolution-

ary War. Grade level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 10-40.

18. *Game:* "Empire" (Educational Development Center). Game demonstrates how Mercantilism affected the economic life of the colonies and Great Britain in 1754. Grade level: Junior High School. Playing time: 1-2 hours. Number of players: 10-50.
19. *Game:* "Economic System" (Western Publishing Company). Simulation is based on the interrelationship in a competitive market system. Grade level: Junior and Senior High School. Playing time: 2-6 hours. Number of players: 7-13.
20. *Game:* "Scarcity and the Market" (Good Time Educators). Game is centered around the relationships between resources, their relative value and scarcity. Grade level: Junior and Senior High School. Playing time: 20-40 minutes. Number of players: 2-4.
21. *Motion Picture:* Show *American Revolution: The Background Period* (10 minutes; Coronet) to illustrate the reaction of the colonists to the Acts of Trade.
22. *Film Strip:* Show *Causes of the American Revolution* (Heritage) to present an overview of the political, economic and social causes of the American Revolution.
23. *Posters:* Ask the students to prepare posters, signs, notices, leaflets and the like, indicating colonial opposition to the Stamp Act, Tea Act, Intolerable Acts, etc.
24. *Picture Study:* Use the pictures in *The American Heritage Book of the Revolution* (Simon and Schuster) to illustrate the spirit and purpose of the Revolutionary Era.
25. *Map:* Ask the students to draw and label on an outline map of North America the original 13 states and the boundaries of the United States after the Treaty of Paris (1783).
26. *Debate:* Resolved: That the United States adopt a policy of free trade.
27. *Chart:* Ask the students to prepare a two-column chart summarizing the arguments for and against the protective tariff.

TOPIC 3

The Confederation Period and the Constitutional Convention

Economic Facts, Concepts, Principles or Problems

- Economic aspects of the Constitution and how economic factors helped to bring it about
- The basic problem of economics (scarcity) and efficient allocation of resources through specialization and exchange
- Factors of production
- Opportunity cost

MANY of the new nations which have emerged since World War II have achieved political independence only to find themselves confronted by serious economic problems. Although the United States began its life as an independent nation with many advantages that today's poor countries do not have, there were critical problems nevertheless. The Articles of Confederation gave Congress the power to declare war, borrow money, regulate the value of coins and establish standards for weights and measures, but it could not draft men into the army, it had to rely upon the states for troops, and it could not directly tax the people. Although Congress could create metal coins, the states controlled paper money and banks. Thus, instead of one unified money system, we had several. Another important weakness was that Congress could not regulate commerce.

Trade and commerce were important to America, but Congress found it difficult to make trade treaties. Foreign governments feared that the states would not abide by the terms of such treaties because Congress had no real power to enforce its decisions. The lack of respect for the new United States was evidenced by such events as the closing of the port of New Orleans to American goods. It was also difficult to do business internally. Paper money that had been issued by Congress during the Revolution was valued at only one-thousandth of its original face value, and the money provided by the states varied in value. States discriminated against one another in commercial affairs, and some placed tariffs on the goods of other states. All of this caused business to suffer.

There were economic problems within the states as well. Farmers had gone into debt to purchase land and buildings but now found it difficult to repay. Some legislatures tried to help by allowing longer repayment periods, issuing paper money liberally, or reducing taxes. These actions irked the creditors, and violence erupted. (Throughout American economic history, the conflict between debtor and creditor interests is a continuing theme.) The Shays' Rebellion in Massachusetts resulted when creditor interests gained control of the legislature and levied high taxes to pay state debts. Already heavily in debt, many farmers lost their property when they were unable to pay these heavy taxes. Although the uprising was crushed, it led many to fear that Congress did not have adequate power to put down a more serious insurrection.

The most basic economic problem is that of **scarcity.** No nation is so rich that it can give every citizen everything that he or she wants. The desires of people tend to be unlimited, but productive resources *are* limited. Productive resources (also called **inputs** or **factors of production**) include land, labor, capital and enterprise. By definition, **land** includes all natural resources. **Labor** refers to all productive human effort. **Capital** is man-made wealth used to produce goods and services. It includes tools, machinery, mines, mills, factories and the like. By **enterprise** we mean the risk-taking businessman who brings the other factors together to produce a product or service. A nation must have land, labor and capital in the right amounts if it is to develop a viable economy. A country may have an abundance of natural wealth but be poor because it lacks trained manpower or capital. It is interesting to compare America's supply of productive resources in our early years with the supplies in some of today's new nations. (Note, for example, that the United States had a huge land base with abundant natural resources but a small population, while some of the newly emerging nations have huge populations and a relatively small land base with limited natural resources. Thus, for the United States a growing population was a blessing as it helped to bring about a better balance between land and labor, while for many of today's underdeveloped nations a growing population is tragic.)

As with all societies, young America had to answer the basic economic questions: What shall we produce? How much shall we produce? For whom shall we produce? How can we utilize our scarce resources most efficiently to maximize output? The **opportunity cost principle** is vitally important here. When a nation is fully and efficiently utilizing its productive resources, it can produce

more of product "X" only by sacrificing product "Y" (or some other goods or service). One of the **real costs** of producing more cars, for instance, is that we sacrifice the opportunity to have more houses or some other good that can be manufactured with the natural resources, labor and capital that had to be diverted to automobile production. On the other hand, if we have *not* been using our existing resources efficiently, we can produce more of everything that is within our productive capability if we will only end the inefficiencies that exist. American businessmen of the 1780's realized that some of the problems cited above were preventing the full and efficient utilization of our existing resources.

In 1785 representatives of Maryland and Virginia met at Mount Vernon and agreed on control of the Potomac River, the establishment of a uniform system of money and trade regulations, and annual talks on commercial problems. The idea spread, and in 1787 the Congress decided upon the Philadelphia meeting to "revise the Articles of Confederation." Economic matters loomed large in the deliberations, for there was a hope for more trade with foreign nations, a uniform monetary system, and an end to restrictions on interstate commerce. The economic aspects of the new Constitution that emerged speak for themselves. Congress now had the power to tax, to coin money and regulate its value, and to control commerce among the states and with foreign nations. Taxes were to be uniform throughout the United States (federal taxes, that is), and there would be no tax on exports.

In terminating the trade barriers that states had been setting up, the Constitution encouraged **specialization and exchange;** and specialization and exchange help to account for our great economic progress and wealth. New England was not well-suited for agriculture, but had the necessary water power for factories. The South, on the other hand, could produce cotton and other agricultural goods that could not be grown easily in New England. The South could now specialize in cotton while New England specialized in manufacturing and they could freely trade with one another. By specializing, both could become more efficient; and by trading, the fruits of that efficiency would be shared. People could move to the new states in the West, confident that the produce of their farms or the output of their mills could be sold anywhere, subject only to the natural restriction of **consumer demand.** In short, the United States became an enormous **common market.**

The Constitutional provision that private property may not be seized except for sound legal reasons also helped to promote business. There is freedom for the individual to enter any business or profession he or she chooses.* Although this freedom has unfortunately been marred by discrimination and inequalities in income and educational opportunity, it has been an important factor nevertheless. Success is not guaranteed, but one is legally free to try. This freedom has led to the development of many new products and industries. A basic value question that might be discussed at this point is the question of the extent to which the individual should be free to pursue his own economic interests. Another is the question of having government aid those who have been handicapped by low income, discrimination and the like.

*Of course, there are often legal constraints. One must have a license or permit to operate certain businesses, and zoning laws may prevent such things as the building of a factory in a residential area.

DISCUSSION QUESTIONS

Economic concepts which may not be self-evident from the wording of the questions are listed in **bold-face type** and preceded by a black disc (●).

1. Since human wants never seem to be completely satisfied, economists call scarcity "the universal economic problem."
   (a) What is scarcity, as economists use the term?
   ● **Limited resources vs. unlimited wants.**
   (b) Why does "the fact of scarcity" create the "allocation problem"?
   ● **What, how much, and for whom shall we produce?**
   (c) Show how the allocation problem involves the principle of "opportunity costs."
   ● **Real costs; efficient allocation of resources; maximizing output.**

2. What advantage does a region have if it specializes in the products it can produce best, provided it can exchange them for the products of other regions?
   ● **Specialization and exchange; efficient allocation of resources; geographic division of labor; natural resources; laws of absolute and comparative advantage.**
   (a) Why did many New Englanders turn to the sea by the end of the 17th century?
   (b) Why did manufacturing begin in New England towns?
   (c) Why did the South turn to plantation crops?

3. A young person deciding to go west to Ohio or Kentucky rather than remain on a New England farm was probably using the principle of opportunity costs.
   (a) What are opportunity costs?
   (b) How does deciding to go to college involve opportunity costs?
   ● **Part of the real cost of one's education is the income that could have been earned if the student entered the labor force instead.**

4. In *The Wealth of Nations* Adam Smith pointed out that a nation's prosperity depends upon production and not upon hoards of precious metals.

(a) Show how a nation's wealth depends upon the following ingredients in making a country productive: (1) its population; (2) its natural resources; (3) its ability to produce.
- **Real wealth; factors of production; education and technology.**

(b) Explain how the economic and political system created by the U.S. Constitution encourages productivity.
- **Economic freedom; profit motive; free trade among states.**

5. To what extent did the Constitution, as drawn up by the Founding Fathers, endorse Adam Smith's ideas of laissez faire, competition and the proper activities of government?
- **Economic provisions of the Constitution; government's role in the economy.**

6. During the years 1781 to 1789, under the Articles of Confederation, some economic groups were happy while others were miserable.
(a) Which groups were satisfied with economic conditions as they were? Why?
(b) Which groups were dissatisfied? Why?
- **Conflicting economic interests, such as debtors vs. creditors.**

(c) Why was this period called "the Critical Period" of American history?

7. Show how the Constitution provides the flexibility to meet the needs of changing economic conditions.
- **Elastic clause; possibilities for varying interpretations.**

8. Under the Articles of Confederation, the Federal government was really a league of independent states.
(a) What problems arose between and among states because there was no strong national executive to enforce the laws?
- **Barriers to free trade; inefficient use of resources; lack of central power to regulate interstate and foreign commerce; variety of tax policies; monetary instability.**

(b) Why did the Articles of Confederation deny the central government the power to levy taxes?

9. The Constitution of the United States has been called a "bundle of compromises."
(a) Describe two economic proposals for the new Constitution upon which the North and South or the agricultural and commercial interests were divided.
(b) Explain the compromises in the Constitution that dealt with each of these proposals.

10. Why does the Constitution permit monopolies for inventors and authors by granting patents and copyrights?
- **Economic incentives; government role in encouraging innovation and technology.**

11. "The Constitution was extorted from a reluctant people by a grinding necessity." Discuss the truth or falsity of this statement by John Adams.
- **Need for economic unification; economic problems of the "critical period."**

12. Compare the economic problems of the new nations that have emerged since World War II with those faced by Americans under the Articles of Confederation.
- **Importance of capital and social capital (infrastructure); government's role in the economy; monetary stability; population; trade; economic unification; education.**

13. After the Revolution, the United States faced international as well as domestic economic problems.
(a) Why was it difficult to make trade treaties with foreign nations during the "critical period?"
- **Importance of uniform trade policy and centralized regulation of commerce.**

(b) How did Great Britain and Spain show lack of respect for the government of the United States under the Articles of Confederation?

14. In a sense, with the adoption of the Constitution, a common market was established in the United States.
(a) What is a common market?
(b) What are its advantages? Disadvantages?
- **Free trade; specialization and exchange; efficient allocation of resources; enlarged markets; benefits of free movement of labor and resources; problems of same.**

(c) Would you be in favor of a Common Market of North America? Give your reasons.
- **Arguments for and against trade restrictions; re-allocation of resources; competition.**

15. Explain how the Constitution protects freedom of enterprise and property rights.
- **Private ownership as a business incentive; freedom of opportunity; competition.**

16. To what extent should an individual be free to pursue his own economic interests?
- **Competition; laissez faire vs. government intervention.**

17. To what extent does the Constitution attempt to eliminate inequalities of educational opportunity and inequalities in income?
- **Education and productivity; income distribution.**

18. To what extent should government aid those who have been handicapped by low income, discrimination, and the like?
- **Government's role in the economy; income distribution; economic effects of discrimination.**

ACTIVITIES

1. *Roundtable on the Constitution and Trade:* Suggest a roundtable to illustrate how the Constitution promoted trade. Have one pupil report on the problems of interstate trade under the Articles of Confederation. A second student would survey Article I, Sections 8, 9 and 10 of the Constitution. A third student should relate Section 8, paragraphs 1, 3, 5, 7, 10 and 18 in the Constitution to the problem of trade. And a fourth student could do the same for section 9, paragraphs 5 and 6; section 10, paragraphs 2 and 3. The Chairman could summarize the discussion.
2. *Founding Fathers Hall of Fame:* Choose 5 or 6 leaders in the Constitutional Convention of 1787. Select students to study each one of these leaders and report on his role in writing the Constitution.
3. *Letters:* Ask the students to imagine that they are farmers in Western Massachusetts just before Shays' Rebellion. Have them write letters to the Governor of Massachusetts describing their problems and asking for help.
4. *Individual Reports:* Assign students to prepare oral reports on the following topics:
   The Causes and Consequences of Shays' Rebellion
   "Not Worth a Continental"—Gresham's Law
   Opportunity Costs
   Scarcity—"The" economic problem
5. *Buzz Session:* Divide the class into small groups to discuss what they would do to remedy the weaknesses of the Articles of Confederation. As the group leaders report, the teacher lists their suggestions on the chalkboard. Using their textbooks and/or the Constitution of the United States the class can inquire as to how each weakness was actually remedied.
6. *Chart:* Ask the students to list in chart form the weaknesses of the Articles of Confederation (what the document failed to do) in one column, and how the Constitution remedied these shortcomings in a second column.
7. *Congressional Committee on the Northwest Territory:* Organize the class into a Congressional committee considering the Land Ordinance of 1785 to discuss the pros and cons of the sale of land in small parcels. On a succeeding day, this committee can also consider the provisions of the Northwest Ordinance and "forecast" the economic, social and political results of its enactment.
8. *Bulletin Board Display:* Appoint a committee to draw up plans for a bulletin board display on the economic provisions of the U.S. Constitution. The committee should pool ideas before actually preparing the display.
9. *Glossary:* Add to your glossary brief definitions of the economic terms found in the original Constitution.
10. *Class Constitution:* The difficulties of writing a constitution can be brought home to the students by having them devise a class constitution as a special homework assignment. Discussion of the class constitutions in class on the following day will show the need for checks and balances, a bill of rights, a judicial branch, etc.
11. *Dramatization:* Organize the class as the Constitutional Convention of 1787. Each student takes the name of, and acquaints himself with the views of, a real delegate before he becomes that delegate in the class dramatization. For example, Randolph introduces the Virginia Plan; Paterson, the New Jersey Plan, and so on. Reference: *The Great Rehearsal* by Carl Van Doren (Viking).
12. *Editorial:* Imagine yourself an editor of a newspaper in one of the 13 original states just before the adoption of the Constitution. Write an editorial urging your state to ratify the new frame of government.
13. *You Were There:* Have the students write and enact the script for a debate on an economic issue in the Constitution (export taxes, for example). If the skit is taped, it can be played back to the students and used in other American history classes.
14. *Panel Discussion:* Have the students impersonate Franklin, Hamilton, Madison, Paterson and Randolph or other delegates discussing an issue involving economics at the Constitutional Convention.
15. *Individual Research:* If you live in one of the original states, investigate the campaign for ratification of the Constitution in your state, summarizing the arguments for and against your state's ratification of the Constitution.
16. *Motion Picture:* Show *Servant of the People* (21 minutes; Teaching Film Custodians, Inc.) to depict the economic and social conditions prevailing under the Articles of Confederation, the need for a new form of government and the compromises of the Constitutional Convention.
17. *Game:* "Disunia" (Interact). Game makes the students cope with the problems of the kind Americans faced in the period 1781-1789 through similar experiences on a new planet in the year 2087. Grade level: Junior and Senior High School.
18. *Game:* "1787: A Simulation Game of the Constitutional Convention" (Olcott Forward, Inc.). The purpose of the game is to produce a convention document which will later be compared in class with the United States Constitution. Grade level: High School. Number of players: 20.
19. *Motion Picture:* Show *American Revolution: The Postwar Period* (10 minutes; Coronet) to illustrate the weaknesses of the Articles of Confederation, the movement for revision and the calling of the Constitutional Convention.
20. *Film Strip:* Show *Writing the Constitution* (Jam Handy) to teach the causes of the failure of the Articles of Confederation and the work of the Convention.
21. *Map:* On an outline map of the United States, have the students draw and label the original 13 states, and the claims of certain of these states to lands west of the Appalachians.
22. *Book Report:* Ask a student to read and report on Marion L. Starkey's *A Little Rebellion* (Knopf) for an account of Shays' Rebellion.

TOPIC 4

Establishing a New Government

Economic Facts, Concepts, Principles or Problems

Need for national economic unity
Government finance
Sound money
What money is and what form it takes
Revenue and protective tariffs
Public debt
Law of demand

A STUDY of this topic offers opportunities to reinforce and expand upon some of the economic concepts introduced earlier and to acquaint students with some new ones. After the new Constitution was adopted, the United States government had to find some source of funds to finance its operations. One of the first acts of the new Congress was to enact a **revenue tariff.** A revenue tariff is a tax on imports. Its major purpose is to raise money for the government, so it cannot be too high if it is to be effective. A **protective tariff,** on the other hand, is designed to keep foreign goods out of the country and thus relieve domestic producers of the pressures of foreign competition. The controversy over the tariff and other impediments to trade is another theme that runs throughout United States history, and the issue is very much alive today.

Another recurring theme is that of the **public debt** —the money that the government has borrowed. The new United States government was faced with the problem of the debt, and public borrowing is by no means a dead issue in modern times. The former government had not repaid the large sums that the Congress and the state governments had borrowed from foreigners and from Americans to help finance the Revolution. New governments often repudiate the debts of the old, but Hamilton wisely urged that all of the old debts be honored. In spite of the great cost, this would show the world that the United States was determined to become financially sound. This policy can lead to a discussion of **credit** in general—the vital role that credit plays in both domestic and international affairs, the importance of establishing a good credit rating, and so on. Perhaps some of the students own United States Savings Bonds, and they should understand why U.S. government securities are among the safest in the world.

The tax issue comes to the fore again with the whiskey tax of 1791. Was the tax really needed to supplement the revenue tariff? Was it fair to place a tax on an item that was important to one group of Americans? (The farmers of western Pennsylvania found it expensive and difficult to transport their grain across the Appalachians to the eastern markets. By distilling it into whiskey it was easier to transport and it brought a good price.) Just what *is* a "fair tax" anyway? If the students have already learned the **law of demand** they can now begin to understand the importance of **elasticity.** The tax would raise the retail price of whiskey and reduce the sales. If whiskey is not essential, it is probable that the percentage drop in sales will be greater than the percentage rise in price. That is, the demand for it is **elastic.** This being the case, the farmers would find their incomes dropping. The so-called Whiskey Rebellion was the result. It did not amount to much, and it even had some comical aspects, but it did serve to show the people that the new government had the power to enforce the law and to collect taxes. (Some 12,000 troops under the command of Washington himself—at least for a time—were sent to crush the rebellion.) Although no one loves taxes, it must be realized that no government can be effective unless it has the power to levy and collect taxes.

Hamilton realized the importance of business and industry and the need for a balanced economy. He saw that a one-crop or one-product economy is not on firm ground and urged that we develop manufacturing. Thus, a crop failure or a drop in farm prices could possibly be offset by a healthy market for manufactured goods. Note that some of the poor nations today have a similar need to diversify. Indeed, there are even parts of the United States where diversification would help to strengthen the local economy. Hamilton understood the concept of **productivity,** for he insisted that industry would become more efficient and productive if machines replaced hand production. (Education is another important factor in increasing productivity. In fact, some economists believe that in recent years the education and training of our labor force have been more important in raising the productivity of labor than technological developments *per se.*) The development of better machines and industrial methods hastened our economic growth, often meant more and better goods at lower cost, and made it possible for workers to enjoy higher wages and businessmen to reap greater profits. The Constitution encouraged the invention of new and better machinery by providing that inventors may have the exclusive use of their creations for a limited period of time. (Some feel that the patent system is often abused today, however, and has helped to create monopolistic control over certain products.)

Stability was sorely needed in our early system of money and banking and Hamilton attacked this problem through his proposal for a United States Bank. The Bank was intended to provide a safe currency, handle government funds and exercise a certain amount of control over smaller banks. At this point students should understand the **nature of money,** and how it functions as a medium of exchange, a standard of value, a basis for credit, and a means whereby we may defer consumption. The **criteria of good money** (acceptability, storability, transferability and so on) should be set forth, so that the class will be able to evaluate the various types of money that were used throughout U.S. history. They should know that a nation's money supply has to grow as the nation grows and develops, but that too much money can create the problem of **inflation,** while too little can lead to a **deflation.** There will be plenty of opportunities to elaborate on this throughout the course.

DISCUSSION QUESTIONS

1. What is a national debt?
   - **Government finance; public borrowing; government bonds.**
   (a) How was the debt faced by the Washington Administration incurred?
      - **Financing wars; borrowing as opposed to taxing.**
   (b) Why did Alexander Hamilton insist that the new Federal government pay the debts of the Revolution?
      - **Role of credit; importance of good credit rating.**

2. Why did the Federal government assume the debts incurred by the states during the Revolution?
   (a) Which sections of the new republic opposed the assumption of the states' debts? Why?
      - **Inequities among the states; government bonds; speculation; interest.**
   (b) How was the controversy settled? Was this the best solution? Why? or Why not?
   (c) Why is it important for a government (as well as an individual) to have a good credit rating?

3. Why did Hamilton urge Congress to charter the First United States Bank?
   - **Function of central banks; role of money and credit in the economy.**
   (a) Why was his plan opposed? By whom?
      - **Debtor vs. creditor interests; fears of monopoly; composition of capital stock.**
   (b) Explain the powers granted to the United States Bank to achieve its purposes.
   (c) Why was a central bank needed in the 1790's? Why is one necessary today?
      - **Money and credit; monetary stability; banking system.**

4. Explain why President Washington's selection of Alexander Hamilton as Secretary of the Treasury had a profound influence on the development of the American economy.

5. After using sociodrama to illustrate the difficulties involved in bartering goods, discuss the following:
   (a) How the use of money overcomes the difficulties of barter.
   (b) The role of money in the United States economy.
   (c) Why a nation must have a uniform currency system.
   (d) The monetary system set up by Alexander Hamilton for the U.S. in 1792.
      - **Role of money and credit; nature and functions of money; criteria for good money.**

6. Sheep were used as money in Bible times, cattle was used in ancient Rome, tea in Old China, and tobacco in colonial Virginia. Explain this. Would such items be usable as money today? Explain your answer.
   - **Criteria for good money.**
   (a) Why did gold become an "international money" for the settlement of payments among nations?
   (b) Could something other than gold serve just as well? Why? or Why not?

7. Prices are related to the amount of money and the quantity of goods available.
   (a) How are prices affected if dollars are scarce and goods are abundant?
   (b) How are prices affected if dollars are abundant, but goods are scarce?
   (c) What terms do economists use to describe these conditions?
      - **Deflation and inflation; quantity theory of money.**

8. The new Federal government offered to redeem the paper money issued by the Continental Congress at one cent per dollar. Was the government justified in refusing to redeem at face value? Explain your answer.
   - **Currency depreciation; inflation; face value; paper money as a promise to pay.**

9. During the debates over Hamilton's financial plans, the country gradually divided into two political parties with distinct programs.
   (a) Name the two parties, their leaders and their attitude toward the interpretation of the new Constitution.
   (b) Discuss the essential differences between the principles advocated by these parties.
   (c) Would you have been a Jeffersonian or a Hamiltonian in the years 1789-1800? Explain your answer.
      - **Government's role in the economy.**

10. How would Jefferson and Hamilton probably have reacted to the following proposals which were being widely discussed in the early 1970's?
    (a) A national sales tax, such as a value-added tax.
        • **Principles of taxation; progressive, regressive and proportional taxes.**
    (b) A guaranteed annual income.
        • **Income distribution.**
    (c) Federal aid to education, including private and religious schools.
        • **Education and productivity; human capital development; school finance.**
    (d) Federal revenue sharing with the states.
        • **Federal and state tax systems; public finance.**

11. What were the immediate economic effects of the American Revolution?
    (a) In what ways had the Revolution stimulated manufacturing in the United States?
        • **Need for economic self-sufficiency during wartime.**
    (b) How did peace with Britain affect these industries?
        • **Competition; protectionism; economic freedom.**
    (c) How did Hamilton suggest that the young republic cope with this situation in his *Report on Manufactures?*
        • **Need for balanced economy and diversification; factors affecting productivity; technological development; patents as incentives; protective tariffs and revenue tariffs.**

12. What is the difference between a revenue tariff and a protective tariff?
    (a) How would you classify Hamilton's tariff of 1789? Why?
    (b) Why did the strongest objection to the tariff come from the South during the first half of the 19th century?
        • **Effect of tariffs on living costs; effects on exporters.**

13 What evidence can you give to show that a major objective of the leadership of the new government under the Constitution was the security of property rights and the promotion of the capitalist system?

14. Compare the action of the Federal government during Shays' Rebellion with its activities during the Whiskey Rebellion. How do you account for the differences in approach, if any?

ACTIVITIES

1. *Cartoon:* Ask the students to draw a cartoon on Putting Down the Whiskey Rebellion. Initiate the assignment by asking the students questions such as the following: Was the Federal government justified in "cracking down" on the farmers of Western Pennsylvania who were evading the excise tax? Was sending U.S. troops into Western Pennsylvania like "killing a spider with an axe"? Was the Whiskey Rebellion really "much ado about nothing"?
2. *Roundtable:* Appoint a roundtable to discuss Hamilton's financial plans. The Chairman outlines the plans, and then moderates and summarizes the discussion. Other members impersonate a small farmer, a bondholder, a businessman, a ship-owner, a loose and a strict constructionist. Questions from the floor should follow the presentation.
3. *Debate:* Resolved: That the Congress charter a Bank of the United States.
4. *Letters:* Ask the members of the class to imagine that they are living during Washington's Administration and that they are writing to their Congressmen either to vote for or against Hamilton's proposed National Bank. To secure a variety of reactions, let each student choose one of the following roles: a rich merchant, a poor cobbler, a farmer, a debtor, a bridge builder, a shipowner, etc.
5. *Speech:* Have a student make a speech such as Hamilton might have made in defense of the Bank. Let a second pupil make a reply such as Madison (Jefferson's spokesman in the House) might have made. See Commager's *Documents,* Nos. 93 and 94, for the arguments of Hamilton and Jefferson.
6. *Role-Playing:* Let the students impersonate a group of Americans discussing Hamilton's financial plans in the Village Hall. Ask the students to express the views of a farmer deeply in debt, a veteran of the American Revolution, a banker, a housewife, a widow who owns government bonds, etc.
5. *Individual Reports:* Assign a student to investigate and report to the class on the attitude of the ordinary citizen toward taxes and tax evasion during the following periods of American history:
   The period of salutary neglect
   The years immediately preceding the American Revolution
   The Articles of Confederation
   The Administration of George Washington
6. *Political Rally:* Have one student represent Hamilton and another Jefferson at an imaginary political rally dealing with the assumption of the states' debts. After the speakers have concluded their dialogue, the audience (the entire class) should ask questions. The teacher should then call for a summary.
7. *Role-Playing—Newspaper Interviews:* Assign two or three articulate students to the role of reporters for the *"Jefferson Journal"* or the *"Hamilton Herald."* Let them interview pupils assigned the role of farmers, plantation owners, Southerners, Northerners, Westerners, debtors and creditors, regarding the great economic controversies of the day such as Hamilton's

financial plans, the Purchase of Louisiana, the tariff, internal improvements, etc. The inquiring reporters should not only ask opinions but also the reasons for them.

8. *Essays:* Require the students to write a short essay on "How Alexander Hamilton Built a Strong Economy."
9. *Bulletin Board Display:* Appoint a committee to prepare a display on various aspects of money, including the four uses of money and various items used as money throughout the ages. The display can be supplemented by students' coin and money collections.
10. *Resource Person.* Invite a representative of a bank or loan company to speak to the class on the importance of credit and a good credit rating in today's economy.
11. *Visit to Bank:* Send a small group of students to visit a commercial bank to become informed about its various services. Bring back samples of deposit slips, withdrawal slips, loan applications, and brochures for use in class. The visitors might also prepare a chart listing the services of a commercial bank and the conditions it must meet to use as they discuss their visit with the class.
12. *Game:* "Scarcity and the Market" (Good Time Educators). Game is centered around the relationships between resources and their relative value and scarcity. Grade level: Junior and Senior High School. Playing time: 20-40 minutes. Number of players: 2-4.
13. *Motion Picture:* Show *Alexander Hamilton* (20 minutes; Encyclopaedia Britannica) to stress the role of Hamilton as a member of Washington's Cabinet and as the author of his financial plans.
14. *Meet the Press:* Select an articulate, well-informed student to represent Hamilton at a meet-the-press session in which several other members of the class serve as reporters. After the role-playing has ended, a lively general class discussion should follow.
15. *Mock Campaign:* Divide the class into Federalists and Republicans conducting the campaign of 1800. Besides speeches and rallies, the students might prepare political posters, cartoons, slogans and songs.
16. *Motion Picture:* Show *Money and Its Uses* (27 minutes; International Film Bureau) to illustrate the importance of sound currency and the functions of money.
17. *Motion Picture:* Show *Story of Money* (16 minutes; Encyclopaedia Britannica) to explain the development of a monetary system from barter to modern banking.
18. *Motion Picture:* Show *Productivity: Key to America's Economic Growth* (27 minutes; Sutherland Learning Associates) to present an historical analysis of the record of productivity and rising levels of living in the United States.

TOPIC 5

Growth of U.S. Nationalism

Economic Facts, Concepts, Principles or Problems

Economic growth and how it is measured
Gross National Product (GNP) and other aggregates
Social and private capital
Per capita output

AFTER he had been in office six months, President Washington set out on a tour to see at first hand how the American economy was functioning. He found a variety of trades and industries operating in New England, observed that 110 ships and 800 sailors at the port of Marblehead were engaged in fishing, and noted that our farm products were being shipped to Europe in large amounts. Americans were boasting of their prosperity, and merchants were predicting that America would find markets for her goods abroad as long as foreign governments did not interfere in our commerce. War in Europe, however, threatened to change the economic picture. The undeclared naval war with France (1798 to 1800), the activities of the Barbary pirates, and the resumption of war between Britain and France in 1803 posed problems. At home, political parties had formed, with Hamilton's Federalists favoring commerce, manufacturing and the financial interests, while Jefferson's Republicans represented the farmers and the debtors. Then, as now, there were important economic differences between political parties. (Today, of course, the picture is more complex. Senators Jacob Javits and Barry Goldwater are both Republicans, but their economic views are often poles apart.) The 18-year-old now has the right to vote, and to be adequately prepared for this responsibility the student should not only know the economic policies of the candidates but understand the implications of those policies. He should be able to apply the analytical tools of economics to the various campaign platforms and promises.

The importance of trade was well illustrated by the effects of Jefferson's embargo. The embargo was an attempt to use economics as a political and diplomatic weapon. Since World War II we have seen the United States ban trade with Communist China and place strict controls on trade with other Communist nations. An examination of such actions can bring to light many basic economic facts and principles. For example, who *really* pays the price? Is the embargo wise? Fair? Effective? Jefferson's embargo resulted in an 80 percent decline in our trade, and American merchants protested while Britain still refused to yield to U.S. demands. (Actually, the embargo was hurting the British economy, but by the time Britain decided to accede to American demands it was too late to stop the war that was about to break out between us.) The economic effects of war might be studied in some detail, with various wars throughout our history being used as examples.

The War of 1812 did help to speed up the development of industry in the United States, for we were forced to build our own factories because the war prevented normal trade with Europe. After the war, there was a feeling of unity in America and a concern for economic growth. A **protective tariff** was placed upon European manufactures, and the tariff has been a source of conflict ever since. A second United States Bank was established, and Clay proposed that we build roads and canals to unite all sections of the country and facilitate the flow of goods.

The importance of **capital** can be illustrated here, for capital goods (machines, factories, tools) are needed to produce other goods and services. In addition to the privately owned capital, such as a General Motors plant, we need **social capital** (sometimes called social overhead capital).* Social capital refers to such things as roads, bridges, ports, and communication and transportation facilities which are publicly owned. They are necessities, but because they are rarely profitable enterprises they must often be provided by government. There has always been disagreement over the question of what should be privately owned and what should be under government operation. Note the recent proposals to turn the Post Office and the TVA over to private enterprise, on the one hand, and the arguments that railroads and communications facilities be taken over by the government, on the other.

The topic of **growth** is a vital one, and has become controversial. When a nation produces more goods and services each year, when business expands, and when job opportunities increase, it is growing economically. Some have opposed growth on the ground that it has brought with it the problem of pollution. Most economists would argue, however, that a growing economy can help to give us the resources needed to cope with such problems as environmental decay and poverty. Everyone should understand the meaning of GNP (**Gross National Product**), the most commonly used measure of our economic performance.

*The term **infrastructure** is sometimes used to refer to the type of capital items we have listed as being social capital. It is somewhat broader, however, for it includes *privately owned* railroads, communication facilities, and the like as well as those which are publicly owned.

The GNP indicates, usually in terms of *current* prices, the money value of everything produced during the year. Because prices change, however, the GNP can be adjusted ("deflated") and expressed in "constant dollars." This is usually done by using the **GNP deflator, a general price index.** For example, in mid-1972 the GNP deflator was about 145, meaning that prices in general were about 45 percent higher than they had been in 1958. Now, the GNP in mid-1972 was approximately $1.139 trillion, as compared with only 447 billion in 1958. It would appear that the 1972 GNP was about 155 percent higher than that of 1958. This does not mean, however, that the nation's real output of goods and services had risen by 155 percent, because some of the higher GNP figure was accounted for by price increases. So, to correct this, we simply divide the current GNP figure by the general price index (the GNP deflator) and multiply the result by 100. Dividing the 1972 GNP of $1.139 trillion by the general price index of 145 and multiplying by 100 gives us an adjusted (or deflated) GNP of only 785 billion. In other words, this is what the GNP *would* be in 1972 if prices had not risen since 1958. Now we have a more realistic picture of the growth of our national output, for the increase in *real* output was about 76 percent, not 155 percent.

This **constant dollar GNP** makes it possible to compare one period with another in terms of real output of goods and services. The GNP figure is cited often in newspapers and magazines, but usually in current dollar terms. To keep up to date with the GNP and other important national statistics, ask to be placed on the mailing list of the Federal Reserve Bank of St. Louis to receive their free report *National Economic Trends* which is published every month. It gives the GNP in both current dollar and constant dollar terms, the GNP deflator, the Consumer Price Index and other useful figures. (Do not confuse the Consumer Price Index with the GNP deflator. The former is an index of the prices of goods and services purchased by the typical urban households*; the latter covers all items counted in the GNP. Furthermore, they do not always use the same base period. In 1972, the CPI was using 1967 as the base period, while the GNP deflator was using 1958.)

If time permits, a study of the other aggregates can be made. These include the Net National Product (NNP), National Income (NI), Personal Income (PI), and Disposable Personal Income (DPI). The NNP is simply the GNP minus the value of capital goods which are depreciating, becoming obsolete, or being destroyed. It allows for the fact that a part of this year's output is being produced to replace items that are no longer useful, and thus it gives us an indication of the value of *usable* goods and services. The National Income figure is a measure of the amounts paid to the factors of production (land, labor, capital and enterprise) employed in the creation of our national wealth. It is the sum of corporate profits, the incomes of other businesses, wages and salaries, rents and interest payments (excluding interest on government debt). In a sense, the NI tells us what it cost to produce the GNP.* Personal Income is a measure of the current income received by people, regardless of the source of that income. Thus, in addition to earned income (such as wages, salaries, interest, rents received, etc.) it includes **transfer payments**—unemployment compensation, old age benefits, relief payments, financial aid to veterans, and the like. Transfer payments were not included in the NI figure because they do not represent payments which add to the nation's output of goods and services; they are simply transfers from one pocket to another, so to speak. Finally, Disposable Personal Income tells us how much income people actually have to spend or to save. It is the amount people have left after they have paid personal income taxes, inheritance taxes and personal property taxes. Each of these aggregates has its uses, and each is usually expressed in current dollars. (For further information on them, see any standard introductory textbook in the principles of economics.) They can be deflated in a manner similar to that used to deflate the GNP. To account for population changes, these figures should be divided by the population figure. This expresses them in *per capita* terms. If the **per capita GNP** in constant dollars is greater this year than last, we can truly say that the economy has grown.

Economic growth is fostered by political stability, a unified system of money and banking, investment, the wise use of natural resources, technological development, education, a willingness to work and to produce, and freedom of trade and commerce. Most nations want economic growth in order to provide their people with a higher level of living and to be economically strong. Most economists approve of economic growth, asserting that it means more jobs, more goods and services, and more resources with which to combat such problems as poverty, slums, inadequate transportation and pollution. There is disagreement, however, over the proper rate of growth and how growth should be achieved. Some Americans believe that an adequate growth rate can be achieved with a minimum of government interference in the economy; others feel that the government has the obligation to provide direction, stimulation and even control.

*A CPI of 130, for example, indicates that it now costs about $130 to purchase the same amount of goods and services that one could obtain for $100 in 1967. If the CPI is rising faster than your money income, then your *real* income is actually dropping, because you can buy fewer goods and services with it. (This assumes that you are the "typical" urban consumer and normally buy those things contained in the CPI.)

*Unfortunately, the term National Income is sometimes used as a synonym for GNP. As we have defined it here, however, it will always be a *smaller* figure than GNP.

DISCUSSION QUESTIONS

1. Why did President Jefferson declare an embargo cutting off trade with Europe, despite the fact that a flourishing trade was vital to the American economy?
   - **Economics as a political weapon; importance of trade.**
   (a) Why did the embargo cause prices of certain commodities in the U.S. to change?
      - **Supply and demand; imports and exports; foreign and domestic markets.**
   (b) Why were many important people opposed to Jefferson's embargo and "Mr. Madison's War" (The War of 1812)?
      - **Impact of the embargo on various sectors of the economy.**

2. How did the War of 1812 affect different regions of the United States?
   (a) Why were the people west of the Alleghenies more interested in territorial expansion than the people of New England before the War of 1812?
   (b) Why did the majority of the people of the South and the West favor the War?
   (c) Why did New England oppose it? What effect did it have on the New England economy?
      - **Agricultural vs. commercial and manufacturing interests; economic effects of war; industrial development.**

3. What is meant by "social capital?"
   (a) What are some of the things that you have used, seen or read about which could be called social capital?
   (b) Explain why each item you mentioned is not usually privately owned.

4. At national Democratic Conventions orators often refer to the party's "greats" starting with Jefferson or Jackson.
   (a) On what economic issues did the leading political parties differ a century ago?
   (b) On what economic issues do they differ today?
   (c) Why is it so important that teenagers be informed on economic issues today?
      - **Conflicting interests of various economic groups; government's role in the economy; monetary and fiscal policies; trade policies; policies toward labor and management.**

5. Economists speak of the GNP and its "cousins"—NNP, NI, PI, and DPI.
   (a) What is measured by a country's Gross National Product (GNP)?
   (b) Why are economists so interested in the size of the GNP?
      - **Economic growth and development; measuring economic performance and wealth.**
   (c) Why must the GNP be expressed in *constant* as well as *current* dollars?
      - **Real growth; inflation.**
   (d) What do NNP, NI, PI and DPI measure? Why are they useful?

6. What is meant by per capita output?
   - **Output per person; economic growth and population.**
   (a) How did Eli Whitney's cotton gin increase per capita output?
      - **Technological innovations and increased output per man, per unit of time.**
   (b) Explain the connection between productivity and per capita output.
      - **Output per man-hour; productivity and economic growth.**

7. Compare the effects of the War of 1812 with those of the American Revolution on American industry.
   (a) How did the British attempt to regain the American market after the War of 1812?
   (b) How did the United States attempt to meet this challenge?
      - **Economic self-sufficiency; internal economic integration; trade; protectionism.**

8. Explain the main features of Henry Clay's American system.
   - **Economic self-sufficiency; tariffs; social capital; internal economic integration.**
   (a) How was the American System expected to hasten our economic growth?
   (b) How would you evaluate the American System?

9. What is meant by "economic growth"?
   (a) How is economic growth measured?
      - **GNP, NNP, NI, PI, DPI; per capita GNP; constant dollars; real growth.**
   (b) Why does every nation want faster economic growth?
      - **Standards of living; job opportunities; economic strength; use of increased resources to combat economic ills.**

10. What economic, political and social conditions are needed if a country is to enjoy rapid and sustained economic growth?
   (a) How did the Federal government try to encourage economic growth after the War of 1812?
   (b) How does it try to encourage growth today?

ACTIVITIES

1. *News Story:* Write an account of the Louisiana Purchase for a local newspaper in New England. Stress the economic benefits that the nation, including New England, will derive from the purchase.
2. *Editorials:* Write brief contrasting editorials on the embargo for a New England Federalist newspaper and for a Virginia paper favorable to Jefferson.
3. *Panel Discussion:* Appoint a panel of three students and a chairman to study the War of 1812. Assign the first student to investigate the causes, the second the state of the American economy during the war, and the third the economic results of the war. After the panelists have given their findings, ask the chairman to lead a discussion on the wisdom of the embargo and the declaration of war.
4. *Debate:* Resolved: That internal improvements be undertaken at the expense of the Federal government.
5. *Dramatization:* Plan a class dramatization of the highlights of the contribution of Eli Whitney to the mass production of guns. Assign a committee to research the nature of standardization of parts, mass production and the economic advantages of this method of production before they write the script.
6. *Inquiry Using Relief Map:* Using a relief map of the United States, have the class discuss the geographic location of key industries in the first half of the 19th century. Factors mentioned should include transportation facilities, access to raw materials, markets, water supply, power, available labor, climate, etc. Students should check with an economic history book to see whether or not their analyses were correct.
7. *Drawings or Models of Early Inventions:* Have students interested in drawing or making things make models of early inventions. A display can be set up, and the artists and engineers given an opportunity to explain how the inventions worked and how they contributed to our economy.
8. *Filming a Field Trip:* Suggest the filming with a home movie camera of a field trip to a place of historic interest or to a local factory. Making a film enhances the benefits of a field trip by making the trip available to more classes. It also records highlights for later discussion in class.
9. *Ideas of Early Economists:* Using Robert L. Heilbroner's *The Worldly Philosophers* as a source, have selected students deliver short reports on the contributions of leading early economists (Adam Smith, David Ricardo, Thomas Malthus and John Stuart Mill) on the development of the leading concepts of capitalism (private property, individual initiative, the profit system and competition).
10. *Graphs:* Consult the Council of Economic Advisers' *Annual Report to the President* for the latest figures on the GNP. Using these figures, construct a "pie-graph" showing the percentage of total annual expenditures accounted for by consumer spending, business spending and government spending. Compare the GNP for the current year with the GNP of previous years by constructing a line graph (using intervals of 10 years). The line graph will indicate the country's economic growth.
11. *Film:* Use a film like *Flatboatmen of the Frontier* (11 minutes; Encyclopaedia Britannica) to show how early settlers in Ohio depended on water transportation.
12. *Graph:* Using ten-year intervals, beginning with the census figures of 1790, construct a bar or line graph showing the growth of our total population and the growth of GNP, 1790-1860. Consult the *World Almanac, NY. Times Encyclopedic Almanac,* or *Historical Statistics of the United States.*
13. *Special Research Topics:* Ask a student to investigate one of the following topics:
    - Gallatin's policy as Secretary of the Treasury
    - Clay's American System
    - Early turnpikes (toll roads)
    - The building of the Erie Canal
14. *Letters:* After consulting their textbooks and reference books, ask the students to write personal letters to friends describing one of the following:
    - A trip west on the Cumberland Road
    - A trip west on the Erie Canal
    - A visit to an early New England mill town
    - A visit to a Southern plantation
15. *Map of Early Transportation Routes (1816-1840):* On an outline map of the United States, mark the water and land routes to the West. Include the Old Wilderness Road, Cumberland Road, Forbes Road, Genesee Road, Oregon Trail, Santa Fe Trail, Erie Canal. Consult: *Historical Atlas of the United States.*
16. *Headlines:* Explain how each of the following headlines indicates that some Federalist ideas survived the end of the Federalist Party.
    - Second Bank of United States Chartered
    - First Protective Tariff Passed
    - National Road Under Construction at Federal Expense
17. *Cartoons:* Draw a "cartoon" on Clay's "American System." The cartoon might be a drawing, diagram or map (or a combination of all three), illustrating how the three sections (North, South, West) and the nation as a whole, were expected to benefit from Clay's American System. Use arrows to indicate the flow of trade from section to section if a map is part of your cartoon.
18. *Oral Reports:* Assign oral reports on the following topics:
    - Economic conditions in the United States in 1816
    - Clay's American System
    - The canal buiding era
    - Internal improvements
    - John Jacob Astor
    - John Marshall's "economic" court decisions
    - Federalist ideas that survived the Federalist Party
    - Early American inventions
    - The Hartford Convention
19. *Tape Recording:* Have students prepare a tape record-

ing on "The Economic Growth of the Early Republic," which can later be played back to the class by way of review. The voices heard might include Hamilton pleased with the success of his financial plans, Lewis and Clark on the possibilities of the Louisiana Territory, the Census Report of 1810, the new Nationalism after the War of 1812, the voices of travelers along the National Road or on the Erie Canal.

20. *Map:* On an outline map of the United States east of the Mississippi, have the students indicate the economic differences among the sections circa 1820.
21. *Then-Now:* How many of the following "persistent economic questions" of the early republic are with us yet? Why?
    - Should the Federal government raise or lower tariff rates?
    - What kinds of excise taxes should the Federal government levy?
    - What action should the United States take with respect to the national debt?
    - Should the Federal government build national roads with Federal funds?
22. *Now-Then:* Have the students investigate a current national economic controversy dealing with taxes, tariffs, Federal expenditures for the general welfare, etc., by reading about it in newspapers or magazines or listening to radio or television programs. Then assign the class the task of finding earlier counterparts to the modern problems in their text or reference materials.
23. *Map:* On an outline map of the United States ask the students to draw the boundaries of the Louisiana Purchase and to indicate the route of the Lewis and Clark expedition.
24. *Pictorial History:* Students can visualize and often obtain deeper insights into American history via paintings, drawings and photographs. A number of pictorial histories are particularly helpful with this topic:
    - Mitchell Wilson *American Science and Invention: A Pictorial History* (Simon and Schuster)
    - James Truslow Adams *Album of American History,* Vols. 1 and 2 (Scribner)
    - Ralph H. Gabriel *Pageant of America,* Vols. 6 and 8 (Yale University Press)
    - Herbert Butterfield *The American Past* (Simon and Schuster)
25. *Motion Picture:* Exhibit *Westward Movement* (11 minutes; Encyclopaedia Britannica) to show the routes west, the spread of population and the admission of new states to the union.
26. *Motion Picture:* Show *Gross National Product* (10 minutes; McGraw-Hill) to teach how the GNP is computed and the various uses of this computation.
27. *Filmstrip:* Show *Gross National Product* (Economics for Our Times Series—McGraw Hill) to show how the GNP is measured and used as an indicator of economic welfare.
28. *Motion Picture:* Show *Money Talks: Goals and Growth, Project I* (30 minutes; Carousel) to show how the GNP is measured and the importance of full employment for economic growth.
29. *Filmstrip:* Show *National Income*, Part I, Set No. 1 (Economics Series—McGraw-Hill) to describe the GNP and its "cousins" and circular flow as an analytical tool.
30. *Filmstrip:* Show *National Income*, Part II, Set No. 1 (Economics Series—McGraw-Hill) to teach the significance of investment spending by a discussion of capital formation in growing, stagnating and disinvesting economies.

TOPIC 6

The Age of Jackson

Economic Facts, Concepts, Principles or Problems

The United States Bank
Central banking
Functions of banks and central banks
Economic impact of Gibbons vs. Ogden and the Dartmouth College case

FEW American presidents have been as colorful as Andrew Jackson. He was the first president to be born in poverty, at the age of 14 he fought the British (receiving a nasty scalp wound from a British officer's sword), and he killed "the best pistol shot in Tennessee" (Charles Dickinson) for making insulting remarks about Mrs. Jackson. He tackled economic issues with the same bullish determination that typified his approach to personal feuds, warfare and political conflicts.

Between the end of the War of 1812 and Jackson's election in 1828, greater specialization developed as the various regions concentrated upon those products for which they were best suited, and the use of steamboats on our rivers, and the building of canals and roads helped to increase trade among the regions. The importance of these developments is shown by the fact that the Erie Canal caused freight rates to drop to 1/20 of their former levels, that within 12 years the canal had earned enough to repay the $7 million it had cost to build it,* and that Mississippi steamboats reached their destinations four times faster than barges propelled by hand or animal power. In 1824 the Supreme Court nullified the monopoly that New York State had given to one company to operate steamboats on New York waterways (Gibbons vs. Ogden). Thus, competition was encouraged by Federal court action. Earlier, in the Dartmouth College case of 1819, the Supreme Court declared that a private charter is a contract which cannot be changed by a state. This proved to be a boon to business, for it would mean that private corporation charters were protected by the **contract clause** of the constitution. Thus, state control over corporations was limited. This encouraged business growth, but also led to abuses of corporate privileges. From this point on, close attention should be paid to the actions of the state and Federal courts to see how their decisions affect the economy. One value question, of course, is the extent to which government can or should control private business. Another is the question of the proper role of the Federal government in providing funds for various improvements. Jackson's veto of the Maysville Road bill in 1831 should make a good case study. (Tantalizing question: How do you explain the veto in view of Jackson's general support of internal improvements and his approval of the Cumberland Road bill just a few days later?)

Two of the most exciting events of Jackson's administration involved the tariff laws of 1828 and 1832, and the Second United States Bank. The students should understand why the South so bitterly opposed the tariff (Jackson's threat to spread blood all over South Carolina, and Congressional modifications of the tariff, prevented a civil war), and why many had switched sides over the issue. (What economic factors caused northerners who had earlier opposed tariffs to support them in the 1830's, while southerners who had approved of tariffs now found them to be threats to their well-being? And in more recent times, why are some industries and labor organizations in the 1970's in favor of trade restrictions when they strongly supported free trade immediately after World War II? Which side is "right" in each case?)*

To understand Jackson's "war" with the U.S. Bank, the students must know about the functions of banks in general and the role of **central banks** in particular. A brief history of banking will help. This should include the development of paper money (the goldsmith's notes, currency issued by our early banks and so on), the functions of banks as safe-keeping places and lenders of money, the use of **checks,** and the importance of **reserves.** It is up to the teacher to decide whether or not the class is ready to learn *how* **commercial banks** create the major portion of our money supply through bank credit expansion.† Whether or not they know how it is done, however, the students should realize that commercial banks do create money, that checks serve as money in our economy, that this "checkbook money" **(demand deposits)** makes up about three-fourths of our total money supply, and that the money supply can expand and contract. Even if all commercial bankers are wise and honest, it is possible that their actions

*Note, however, that many canal-building projects were dismal failures.

*Be sure that all sides are fairly represented in this important controversy.

†Consult a standard college textbook on the principles of economics (sections on money, credit and banking) for an explanation of this process. See George R. Taylor, *Jackson vs. Biddle's Bank: The Struggle Over the Second Bank of the United States,* 2nd ed. (Lexington, Mass.: D. C. Heath, 1972), for a detailed account of the bank controversy and its implications.

(collectively) will result in economic disaster. During a period of prosperity, for example, bankers may extend loans liberally because there is a great demand for investment funds, because the prospects for profit appear to be good, and because it is the banker's job to see to it that his bank makes as much money as possible without taking unwise risks. If all bankers are doing the same thing, however, the result may be that too much money flows into an inflated economy, that businessmen have overestimated the market demand for their goods, and that some will not be able to repay their loans. The wise banker may then begin to refuse loans. Again, if all others are doing the same, the money supply will contract, businesses may be unable to obtain loans for perfectly sound investments, and an economic downturn ensues. Thus, while all bankers *individually* are doing what seems to be the right thing, *collectively* their actions can be bad for the economy. It is the purpose of a central bank to offset such things. As a bank for bankers, a central bank aids other banks as well as controlling them. Everyone should understand the means by which these responsibilities are carried out. Today, the Federal Reserve System acts as our central bank.

The powers and functions of the "Fed" can be compared with those of the Second U.S. Bank. Some of the criticisms levelled at the U.S. Bank were very similar to criticisms of the Federal Reserve that we hear today. Some charged that the U.S. Bank kept interest rates too high, and whenever the "Fed" takes action to raise interest rates there are bound to be protests from many sources. Some did not like the idea that so powerful an institution as the U.S. Bank was not under direct control of the administration, and there are some today who feel that the Federal Reserve should not be independent of the President. (As one example of the Federal Reserve's independence, note that in late 1965 it took anti-inflationary actions over President Johnson's opposition.)

When Jackson vetoed the bill to recharter the U.S. Bank, its director (Nicholas Biddle) called in loans from smaller banks. These banks, in turn, had to call in loans from their borrowers. Unable to raise the money quickly, many businesses failed and the country went into a depression known as Biddle's Panic (1833). There is nothing new about protest marches, and when one group threatened to camp in the Capitol until the bank was rechartered, Jackson warned them: " . . . I will hang you . . . on gallows higher than Haman." That ended the protest, the U.S. Bank went out of existence, and now the nation's banking system was headed for chaos. With no central bank to control them, many banks extended loans too freely and issued too much paper money. People lost confidence in banks and in paper money, and another depression occurred in 1837. The era of "wildcat banking" clearly illustrates the importance of a stable system of money and banks.

DISCUSSION QUESTIONS

1. Why is the protective tariff often a "local issue"?
   - **Free trade vs. protection; effects of tariffs; effects of foreign competition.**
   (a) Why did Southern support for a protective tariff in 1816 turn to strong opposition in 1828 and after?
   (b) How was the tariff controversy of 1832-33 finally settled? Was this a wise solution?

2. What role do banks perform in our economy?
   - **Money and credit; savings; economic growth; specialization and exchange; trade.**
   (a) Why was there little need for banks in early frontier days? Why did the need arise later?
   (b) In what way is banking a business enterprise?
   (c) How does a commercial bank differ from a savings bank?
   - **Use of checks; creation of money by commercial banks; savings; safe-keeping.**

3. Compare the second U.S. Bank (1816-1836) with the first U.S. Bank (1791-1811).
   - **Central banking; government and the banking system; monetary stability.**

4. The Second U.S. Bank has been called "our first central bank."
   (a) What is a central bank? Why are central banks considered to be necessary?
   - **Money and credit; monetary stability; banks and businesses.**
   (b) How do central banks control smaller banks?
   - **Bank reserves; credit expansion and contraction; interest rate regulation.**
   (c) Should central banks have the power to control the operations of local banks? Explain.
   - **Regulation of money supply.**

5. Did Jackson's decision to abolish the second U.S. Bank retard or encourage American economic development? Explain your answer.
   - **Role of central banks; effects of expansion and contraction of the money supply on the economy; importance of uniform and stable currency.**

6. How is it possible for a bank to use its deposits as a means of creating credit for the use of borrowers?
   - **Money creation through bank credit expansion.**
   (a) Why do loans and deposits of the banking system expand and contract together?
   (b) What are the limits of the lending power of the banking system?
   - **Role of legal reserve requirements.**

7. Did the first and second United States Bank have a healthy influence on American financial development? Explain your answer.

- **Central banking; money and credit expansion; effects of overissuing paper notes.**

8. What is meant by a "financial panic"?
   - **Money, banking, credit and their effects upon the economy; business recessions.**
   (a) Why were such panics likely to follow periods of speculation and easy credit?
   (b) What caused the Panic of 1837? What were the outcomes?

9. Explain the role of river steamboats, the Erie Canal and the railroads in the economic growth of the United States between the War of 1812 and the end of the Jacksonian Era.
   - **Technology; importance of transportation and communications; specialization and exchange; national economic unification.**

10. The decisions of Supreme Court justice John Marshall reflected the nationalism of the period, and many dealt with economic issues. What were the economic effects of: McCulloch vs. Maryland; Gibbons vs. Ogden; Dartmouth College Case?
    - **Regulation of banking; state and Federal controls; interstate commerce; monopoly; corporations.**

11. The U.S. government has given "grant-in-aid" to states for highway construction and other purposes.
    (a) Is it a proper function of the Federal government to provide funds for various intrastate improvements? Justify your answer.
    - **Social capital; government's role in the economy.**
    (b) What is your view on revenue sharing? Explain your position.
    - **Economic responsibilities of Federal and state governments; taxation.**

12. Why has the Age of Jackson been called "the golden age of the entrepreneur and small capitalist"?
    - **Role of the entrepreneur; large vs. small business.**

13. "From the first days of the Republic the role of government in the economy has been a subject of public debate." Explain this.

14. Decisions of state and Federal courts can profoundly affect the economy.
    (a) In what way can court decisions affect the economy?
    (b) To what extent should the courts have the power to affect the economy? Defend your answer.

15. Andrew Jackson generally supported internal improvements at Federal expense. Yet, a few days after vetoing the Maysville Road he approved the Cumberland Road Bill. How can this be explained?
    - **Government's role in the economy; purposes of taxation; political vs. economic motives; who pays for improvements and who benefits.**

ACTIVITIES

1. *Motivation for Study of Banking:* The teacher can build interest in banking by reading excerpts from *Put That Dust Back* by Bruce G. Mortimer. This book contains a collection of interesting, often humorous anecdotes and stories about banks and banking.
2. *Materials on Banking:* The teacher might write to the Publications or Research Departments of the Federal Reserve Bank of the district for publications on money and banking which will be useful to his or her classes. Two of the best are:
   Keeping Our Money Healthy, Federal Reserve Bank of New York.
   The Story of Checks, Federal Reserve Bank of New York.
3. *Individual Research Projects:* Ask individual students to do research and report to the class on one of the following reform movements:
   The Antislavery Movement
   "Ideal" or "Utopian" Communities
   Early Trade Unions
   Waltham System
   Opposition to Child Labor in 19th Century Factories
4. *Debate:* Resolved: That rechartering the Second United States Bank is essential to the economic development of the nation.
5. *Reports on the History of Banking in the U.S.:* Have individual students prepare oral or written reports on topics dealing with the history of banking:
   Hamilton's United States Bank: Organization, Purposes, Accomplishments
   Andrew Jackson and the Second United States Bank
   Nicholas Biddle: His Personality and Accomplishments
   Wildcat Banking: The Need for Banking Controls
   The Independent Treasury System: Its Organization and Accomplishments
6. *Speaker:* Invite a local banker to speak to your class on the banking business, especially the loan function, check-clearing features, and his view of the role of banks in the American economy.
7. *Panel Discussion:* Ask a small committee to read to the class and discuss the application of the provisions of Article I, Section 8, Clause 3, of the Constitution of the United States which gives Congress the power to regulate interstate commerce. Points for panel discussion should include conditions under the Articles of Confederation, reasons for the inclusion of the clause in the powers of Congress, influence on case of Gibbons vs. Ogden, and its importance today.
8. *Role-Playing:* Imagine that the only bank in a small

town has announced that it will liquidate its assets and close down in six months. A committee of townspeople has been formed to induce the bank to stay open. What would each of the following say at the hearing?

A middle-aged man saving for his old age.
A householder who pays by check.
A merchant whose business is seasonal.
A small manufacturer who sells his products out of town.

9. *Panel on Banking:* Ask three students to investigate and then expound the policies in regard to the relation of the government to the banks and banking which were advocated by each of the following:

Alexander Hamilton
Andrew Jackson
Martin Van Buren

10. *Dramatization:* Have the students write a skit in which four great American leaders discuss an important economic issue—the extension of the National Road. Select students to impersonate Calhoun, Clay, Marshall and Jackson.
11. *Cartoons:* Have the class draw cartoons or diagrams on one of the following topics:

Reasons for the establishment of the First and Second United States Bank.
Why certain groups were opposed to the formation of the First and Second United States Bank.
Andrew Jackson and the Bank.
Why many ordinary Americans supported Jackson in his fight with the Bank.

12. *Local Economic History:* If you live in a community that existed during the Age of Jackson, you can prepare an interesting oral or written report on its early economic development. As an alternative, a committee, or the entire class, might prepare a booklet on your community's economic beginnings and progress. Consult your local historical society for materials available.
13. *Class Newspaper:* Have the students write articles for the *Journal of Economics,* a class newspaper, which discusses the economic issues of the Jacksonian Period. The articles might include: The Maysville Road Veto, The Removal of the Eastern Indians, The Tariff Controversy, Nullification, and Jackson's War on the United States Bank.
14. *Game:* "Banking" (Science Research Associates). Game involves the financial activities and decisions of commercial banks. Grade level: Senior High School. Playing time: 2-5 hours. Number of players: minimum of 6.
15. *Game:* "Mr. Banker" (Federal Reserve Bank of Minneapolis). Simulation acquaints students with money and credit system of our nation and how it affects and is affected by changes in economic conditions, including business cycles. (Available by loan.) Grade level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 6-40.
16. *Motion Picture:* Show *Andrew Jackson* (20 minutes; Encyclopaedia Britannica). The film covers Jackson's boyhood, military and political career, the spoils system, and his attack on the Bank.
17. *Filmstrip:* Show *Story of Andrew Jackson* (SVE) for a biography of "Old Hickory."
18. *Chart:* Summarize in chart form the views of Hamilton, Jefferson and Jackson on the national bank, the tariff and nullification.
19. *Reports:* Ask the students to present brief oral reports or thumbnail written reports on outstanding personalities of the Jacksonian Era (Calhoun, Benton, Clay, Webster, Biddle, Van Buren, Harrison, Peggy O'Neill (Mrs. Eaton) and Rachel Jackson). Reference: Carl Fish, *The Rise of the Common Man.*
20. *Motion Picture:* Show *The Curious History of Money* (20 minutes; Barclay's Bank Ltd.) to trace the uses of money and the development of banks from earliest times to the present.

TOPIC 7

Sectionalism and the Coming of the Civil War

Economic Facts, Concepts, Principles or Problems

Economics of slavery
Economic differences between the sections
The tariff controversy
Effects of tariffs
Inflation

BETWEEN the end of Jackson's administration and the beginning of the Civil War, many important events occurred in America. During Van Buren's administration the U.S. and England nearly went to war over the disputed boundary between Maine and Canada (the question was settled by the Webster-Ashburton Treaty of 1842), and in 1844 they squabbled again over the Oregon Territory. The latter issue was settled by treaty in 1846, with the United States getting part of the Territory. Economics played a part in the compromise, for a lucrative trade had developed between the two countries and the British had no desire to disrupt it. It is interesting to note how often in history economic relations have led to peace and friendship, and how often barriers to trade have been instrumental in leading to war.* (When President Nixon returned from his summit talks with the Soviet leaders on June 1, 1972, he pointed out that an increase in trade with the Russians would help to insure peace.)† The victory over Mexico added more territory to the United States. Geographic growth was accompanied by population increases and economic expansion as well.

The discovery of gold in California had a profound effect upon the development of that area and on the nation as a whole. Our gold production had been below $1 million worth in 1847, but rose to $65 million by 1853. This was a mixed blessing, however, for it helped to bring on an **inflation.** Inflation is a general rise in prices, and it affects nearly everyone. Students should understand the difference between money income and **real income.** Real income refers to the amount of goods and services that one can buy with one's money income. Suppose, for example, that a person had a money income of $100 per week in 1967, and that his money income in March of 1972 was still $100. During that period the Consumer Price Index (CPI) rose to 124, however, indicating that it would take 124 dollars to buy the same amount of goods and services that one could obtain with $100 in 1967. Since the person's money income remained unchanged his real income dropped sharply. Only the person who is fortunate enough to have his money income rise as fast or faster than prices is unaffected by inflation.* The student who works to earn money, who has an allowance, or who simply shares in the family income in a general way is certainly affected by inflation. Many basic economics textbooks include simple explanations of **price indexes,** and everyone should at least know what they mean and how they can be used. For instance, in the example given above the individual could use the CPI to "deflate" his money income figure. He simply divides his 1972 money income ($100) by the 1972 CPI (124) and multiplies the result by 100. He would find that his 1972 money income is the equivalent of about $81 in terms of what $81 would buy in 1967.

Inflation not only harms the individual (such as a retired person living on a fixed pension) but is bad for the nation as well. Foreigners lose confidence in the dollar when they see that its value is declining, and everyone loses respect for a government that cannot or will not control inflation. Economic relations with foreign countries can be damaged. Inflation is one of the reasons why the United States dollar dropped in value as compared with foreign currencies in 1971 and 1972, and why an **unfavorable balance of trade** developed. (A nation is said to have an unfavorable balance of trade when the value of its imports exceeds the value of its exports.) As the price of American goods rises, foreigners buy fewer of them.

There are several possible **causes of inflation.** If a nation uses gold or silver for money (or if its paper money is backed by these metals), the discovery of large amounts of gold or silver can cause inflation. If the supply of money rises faster than the supply of goods and services, prices will climb. Inflation can be caused by the printing of too much paper money. In Germany after World War I, for example, the government printed enormous amounts of paper money. Prices soared to the point where it took a

*This is not meant to be a sweeping generalization, however, for domestic issues must also be taken into account when evaluating trade restrictions, and wars often have a multiplicity of causes.

†"Expanded United States-Soviet trade will . . . yield advantages to both of our nations. When the two largest economies in the world start trading with each other on a much larger scale, living standards in both nations will rise, and the stake which both have in peace will increase." Quoted in *The New York Times,* June 2, 1972.

*Of course, this overly simplifies the picture. The CPI is based upon about 400 goods and services purchased by the "typical" urban family. The prices of some items rise more rapidly than those of others. If the individual had been in need of extensive medical care, for example, and thus had spent more than the average person for this service, he would indeed feel the effects of inflation.

bushel basket full of money to buy a loaf of bread. A sudden increase in consumer demand can send prices upward if buyers must compete for a limited supply of goods. Banks can help cause inflation by extending loans too freely. Commercial banks create demand deposits for their borrowers, and when the borrowers write checks upon these deposits those checks circulate as money in the economy. Labor unions which have obtained wage increases in excess of the worker's productivity have been blamed for inflation. (If a worker produces $25 worth of goods a day but must receive a wage of $27, then the employer will probably claim to have to raise his prices to cover the additional $2.) Monopoly practices on the part of business reduce competition and help keep prices too high. The government can cause inflation by increasing its own spending at a time when the economy is already producing at top capacity. At such a time we cannot increase our output, so the government must compete with private buyers for the limited supply of goods and services, thus forcing prices upward. In the mid-1960's, the government stepped up its spending because of the Vietnam war but did not increase taxes sufficiently to pay for it. Many economists say that this was a major cause of the serious inflation that followed.

The whole question of inflation is controversial because people will disagree on whom to blame, who is most affected by it and what should be done about it. Some economists feel that a mild inflation can even be good. If business has been slack and the growth rate has been too low, a modest increase in average prices (of 3 or 4 percent) might help to stimulate business to build more factories, buy more equipment, hire more workers and produce more goods. In any event, the inflation caused by the discovery of gold in California was not too serious, and it probably helped to keep the nation prosperous for a few years. In fact, business expanded greatly between 1849 and 1856. This can be used to introduce the class to the topic, however.

The favorable economic situation of this period was not matched by political tranquility. Slavery was becoming a burning issue. The **economics of slavery** is a fascinating subject for study. Was it really profitable to own slaves? Would Southern plantation owners have been better off with free labor? What effect did slavery have upon the economy of the South? Of the nation as a whole? Several books are available that might help to answer such questions.*

Three economic sections had emerged in the United States. The Northeast was dominated by finance and industry, while the South and West were agricultural areas. **Creditors** were in power in the Northeast, while **debtors** were influential in the West and South. Creditors would naturally favor sound money or even deflation while debtors would hope for inflation. (To illustrate this, note that the creditor who loaned someone $100 in 1967 and was repaid in March of 1972 received dollars whose purchasing power had declined by some 20 percent. People owning bonds—which are certificates of indebtedness—and those with their money in savings accounts have also suffered from inflation. The interest they receive may fail to offset the drop in the value of the dollar. Debtor groups have often favored inflation, on the other hand, because they are—in effect—paying back less than they borrowed.) The Northeast favored high tariffs to lessen the competition of foreign goods, while the South and the West sought lower tariffs because they were buyers of manufactured items and sellers of agricultural goods which entered into foreign as well as domestic markets. Many historians believe that the economic differences between North and South were more important than the slavery question in bringing on the Civil War.

In the decade that preceded the War, many things happened to strengthen the North. A process for converting pig iron to steel was developed in 1851. In 1853 the New York Central Railroad was formed by uniting several smaller lines, and this helped to provide an important transportation link between the Northeast and the West. This tied the West to the Northeast economically, for goods could now flow more easily to the Northeast than to the South. This may help to account for the fact that the West eventually sided with the Northeast. Trade with the Far East was expanded, a trade treaty with Canada ended the possibility of war with her, and the opening of the Soo Canal in 1855 provided cheap transportation for iron ore. The development of the Marsh harvester in 1858 doubled grain output. Oil was discovered in Pennsylvania in 1859, and gold and silver were found in Colorado and Nevada in that same year. Between 1850 and 1860 the population of the United States increased by over 35 percent, and most of the immigrants were freedom-loving people (with an aversion toward slavery) who settled in the North and West. All of these economic developments served to give the North an advantage over the South when the war finally broke out.

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*For example, see Alfred H. Conrad, *The Economics of Slavery* (Chicago: Aldine, 1964); Eugene Genovese, *The Political Economy of Slavery* (New York: Pantheon Books, 1965); U. B. Phillips, *American Negro Slavery: A Survey of the Supply, Employment and Control of Negro Labor as Determined by the Plantation Regime* (Baton Rouge: Louisiana State University Press, 1969); and Alfred H. Conrad and John R. Meyer, *The Economics of Slavery and other Studies in Econometric History* (Chicago: Aldine-Atherton, 1972).

DISCUSSION QUESTIONS

1. Show how each of the following contributed to bitterness between the North and the South from 1820 to 1860.
   (a) The tariff controversy.
      - **Effects of tariffs on living costs and trade; free trade vs. protectionism.**

   (b) Westward expansion.
      - **Regional specialization; land as a resource; land policies.**

   (c) The antislavery movement.
      - **Labor; economics of slavery; economic vs. humanitarian motives.**

2. Describe the economic differences between the North and the South before 1850.
   - **Regional specialization; agriculture vs. industry; status of economic development.**

3. Why did many Americans of the time consider the Compromise of 1850 to be "the final solution" of the slavery question?

4. Analyze the effects of each of the following developments on the North and the South during the decade of the 1850's.
   (a) Continued population growth.
   - **Size and quality of population in relation to economic development.**

   (b) Growth of industrial cities.
   - **Urban growth; industry; technological developments.**

   (c) Railroad construction.
   - **Transportation; technological developments; costs of shipments.**

   (d) Widespread use of the reaper and other farm equipment on Northern farms.
   - **Technology and productivity; production costs; agriculture.**

5. During the period 1800-1850 the population of the West increased threefold. Discuss (a) two reasons for this remarkable growth, and (b) the effect of the growth of the West on three national problems of the period.
   - **Population; economic growth and development.**

6. How did the discovery of gold in California in 1848 affect prices in the United States?
   - **Inflation; relation between money supply and supply of goods and services.**

   (a) How did persistently rising prices (inflation) affect Southern slaveholders; debtors; creditors, who held long-term bonds and mortgages; and business activity in general?

   (b) If your salary remains constant while prices rise, what happens to your *real* income? Explain your answer.
   - **Money income and real income; Consumer Price Index; inflation.**

7. Discuss the slavery provisions of the original U.S. Constitution.
   (a) Evaluate Calhoun's arguments in defense of slavery.

   (b) Was Northern opposition to slavery chiefly on moral grounds? Defend your answer.
   - **Economics of slavery; labor; economic vs. noneconomic motives.**

8. Account for the large increase in the price of slaves in the Southern states before the Civil War.
   - **Demand and supply; labor as a factor of production.**

   (a) Why did the North oppose the admission of new "slave states" into the union?

   (b) Discuss the attitude of each of the following writers toward slavery: William Lloyd Garrison in *The Liberator;* Harriet Beecher Stowe in *Uncle Tom's Cabin;* and Hinton Helper in *The Impending Crisis.*

9. Before the Civil War, economic forces both united and divided the North and the South.
   (a) Discuss two economic differences between the North and the South that aggravated sectionalism in the United States.

   (b) How did these economic differences manifest themselves in politics?

10. Explain how the growth of slavery was connected with each of the following: (a) the cotton gin; (b) territorial expansion; (c) the Civil War; (d) the Black revolution of the 1960's.
    - **Impact of technology on output and profits; land as a resource; land values; labor and labor costs; social and political animosities created by economic exploitation.**

11. Review the meaning of "revenue tariff," "protective tariff," and "free trade."
    (a) How was the country divided over the issue of the protective tariff during the Age of Jackson? What were the reasons for this division?

    (b) Summarize the main arguments for and against the protective tariff.

12. Trade has often led to peace and friendship among nations, while trade barriers have sometimes led to suspicion and war. Show how economics was involved in the Webster-Ashburton Treaty of 1842 and the settlement of the Oregon Question in 1846.

13. On his return from the Soviet Union in June of 1972 President Nixon said:

    "Expanded United States-Soviet trade will . . . yield advantages to both of our nations. When the two largest economies in the world start trading with each other on a much larger scale, living standards in both nations will rise, and the stake which both have in peace will increase."

    Do you agree or disagree? Explain your answer.
    - **Specialization and exchange; laws of comparative and absolute advantage.**

14. Explain how the Consumer Price Index can be used to measure the rate of inflation.

15. Explain why inflation is harmful not only to individuals (such as retired persons living on fixed pensions) but to our nation and other nations as well.
    - **Effects of inflation on cost of living; on production costs; on our competitive position in international trade.**

16. Discuss the causes of inflation after the discovery of gold in California, and the causes of inflation in the 1970's.
    - **Relationship between growth of money supply and growth of supply of goods and services; high government spending; excessive creation**

of money; wage increases exceeding productivity gains; monopoly practices; high demand.

(a) How did the Nixon Administration try to cope with inflation in the early 1970's?

- **Fiscal and monetary policies; wage and price controls.**

(b) What can you and your family do to help curb inflation?

- **Citizen's role in influencing government policies; wise budgeting of personal income; increasing one's efficiency and productivity.**

ACTIVITIES

1. *Editorial:* Write an editorial for a northern paper of the 1850's discussing one of the following: the economic costs of slavery, the effects of the Compromise of 1850, or the consequences of the Dred Scott Decision.
2. *Cartoon:* Draw a cartoon condemning slavery on moral or economic grounds.
3. *Chart:* Contrast in a graphic way the differences between the plantation South and the industrial North.
4. *Individual Research:* Investigate the "Era of the Clipper Ship" and then prepare an oral report on the American Merchant Marine (1840-1860).
5. *Letter:* Imagine that you are spending a month's vacation on a Southern plantation during slavery days. Write a letter to a friend "up North" giving an account of how the work of the plantation was done and how the slaves were treated.
6. *Individual Reports:* Select one of the following "sectional spokesmen" for special study. Prepare an oral report on his views on the great issues of the period.

   Daniel Webster — Henry Clay
   John C. Calhoun — Stephen Douglas
7. *Chart:* The climate, resources, topography and other geographical influences of the North, West and South affected their political and economic views. In chart form, indicate the *views* and the *reasons* for these views on each of the following issues for each of the sections:

   The National Bank — The Tariff
   Internal Improvements
8. *Dramatization:* Ask students to write a script illustrating the goals of a frontier farmer who is looking forward to national expansion toward the South and West. The script should reflect isolationism, national pride, "manifest destiny" and the movement westward of cotton as well as people.
9. *Roundtable:* Divide the class into small committees to investigate topics such as the abolitionists, the tariff controversy, Jackson and the Bank, etc. Have each committee select a leader who will participate in a roundtable entitled "Sectional Strife Splits the Nation." The audience (entire class) should be encouraged to participate in the questioning that follows the formal presentations.
10. *Bulletin Board Display:* Divide the class into three groups to represent the three sections of the United States prior to the Civil War. Then divide the bulletin board into three parts. Ask each group to display the outstanding characteristics of each section by cartoons, drawings, pictures, etc., and to indicate by chart the stand each section took on the great issues of the day.
11. *Map-Discussion Lesson:* Ask a committee of students to conduct a map-discussion lesson on the economic differences of the West, North and South. After drawing a large outline map of the United States on the chalkboard, the class chairman can summarize on the outline map the chief points made by committee members discussing the following questions:
    1. Show how the growth of the West led to controversies with the East over each of the following: (a) internal improvements; (b) United States Bank; (c) purchase of new territory.
    2. Compare the attitudes of the North, East and South toward each of the following during the 1830's and 1840's: (a) the tariff; (b) internal improvements; (c) western lands.
12. *Map:* Have the class draw a map of the territorial growth of the United States: 1789-1853.
13. *Summary in Chart Form:* Have the students make a table listing three events between 1800 and 1860 in which (a) economics affected or influenced political questions, or (b) politics affected economic problems.
14. *Motion Picture:* Show either of the following films to describe the plantation system of antebellum days: *Plantation System in Southern Life* (11 minutes; Coronet) or *The Plantation South* (16 minutes; Encyclopaedia Britannica).
15. *Filmstrip:* For a review of the slave system, show either *Story of Slavery in the United States* (Visual Aids Consultants) or *When Cotton Was King* (Museum Extension Service).
16. *Book Reports:* Students interested in the economics of slavery can make brief oral or written book reports on one of the following books:

    Alfred H. Conrad, *The Economics of Slavery* (Chicago: Aldine, 1964)

    Eugene Genovese, *The Political Economy of Slavery* (New York: Pantheon Books, 1965)

    U. B. Phillips, *American Negro Slavery: A Survey of the Supply, Employment and Control of Negro Labor as Determined by the Plantation Regime* (Baton Rouge: Lousiana State University Press, 1969)
17. *Game:* "Frontier" (Science Research Associates). This game involves the study of early American westward expansion by emphasizing fundamental sectional differences. Grade level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 25-35.

TOPIC 8

The Civil War

Economic Facts, Concepts, Principles or Problems

Economic aspects of the war
How economics gave the North the advantage
The cost of the war
Taxes
National banking system

THE Confederacy adopted a constitution which was very much like the Constitution of the United States, but it protected slavery and outlawed tariffs that would protect industry from foreign competition. Thus, just as the Constitution of 1789 reflected many of the economic interests of the original states, the Confederate constitution shows some of the economic policies that the South espoused. An interesting research question is: To what extent were these policies really in the best interest of the South's economy?

Some of the economic advantages enjoyed by the North have already been cited. A few others are worth noting. The North had a population of over 22 million, while the South had only 9 million (and one-third of those were slaves). The North had 105 million acres of land in crops, as compared with the South's 57 million. The North produced 80 percent of all the goods and services produced in the country. In terms of manufactures, the North could produce nine times as much as the South. The South had only 9,000 miles of railroads, as compared with 22,000 for the North, and those of the latter were organized more efficiently. The North produced about 17 times as much iron as the South, and it enjoyed a diversified economy while the South relied heavily upon one crop—cotton. Southerners overestimated European demand for their cotton, and forgot that European nations also needed the food crops of the North. Thus, while some assistance came from abroad, foreign support did not live up to the expectations of the Confederacy. Time after time, history shows the importance of economics in warfare. It is a grave mistake to underestimate the strength of a potential enemy or to overestimate one's own economic power. (For example, Hitler failed to realize the tremendous productive capability of the United States before World War II.)

Although the North had the stronger economy, it was not without problems during the Civil War. A large amount of money would be needed to pay the costs of the war, and the usual taxes would not suffice. The tariff and **excise taxes** (taxes levied on the sale of certain commodities, such as the current taxes on gasoline and cigarettes) would have to be supplemented. These are **indirect taxes,** which means that they are placed upon one person or thing but actually paid by another. The service-station owner may be the one who hands the gasoline tax to the government, but it is the consumer who has actually paid it. Many such taxes are hidden —that is, the tax has been included in the price of the product without the customer realizing it. This is generally true of the tariff.

War is a costly business, and during the four years of the Civil War the government spent more than it had expended during all of United States history up to that time. To help defray this great expense, an **income tax** was levied for the first time in our history. This is a **direct tax** for the payer cannot shift it to someone else. Some believe that the income tax is fairer than an indirect tax because it cannot be shifted. It would be interesting to compare the income tax of the Civil War period with today's income tax, paying particular attention to the rates. (During that War, people with yearly incomes between $600 and $5000 paid 5 percent. Those with incomes over $5000 paid 10 percent. While this is certainly simpler than our current rate structure, is it fairer or less fair?)

Two other means of raising money were borrowing and issuing paper money. The former was done by selling government bonds. When one buys a government bond, one is lending money to the government. In 1862 the government issued **fiat money,** or paper money with no silver or gold behind it. This money was called "greenbacks." The Post Office issued paper money valued at from five to 50 cents. People distrusted these paper monies, however, and often saved their metal coins because they knew that those coins had **intrinsic value.** That is, the coins had value aside from their use as money because the metal they contained could be melted down and used to produce goods. (Note what happened recently when the government stopped using silver in all coins except the half-dollar. The new coins circulated freely, but the half-dollars "went into hiding.") The government then issued paper money valued as low as three cents to replace the coins that were being hoarded. During wars and other emergencies people often become worried about the value of the money they are holding. Paper money is then often exchanged for gold, silver or some other commodity whose value is not apt to decline. People will also exchange the currency of their own nation for that of another whose money appears to be more stable. (Why did many Europeans prefer German marks to American dollars in 1971? Why did American tourists in Europe during the spring and summer of 1971 find it difficult to exchange dollars for local currencies? Why did it suddenly take $2.50 instead of $2.40 to obtain a British pound note?) Providing a safe and sound system

of money is one of the most important obligations that a government has.

America's money and banking system was in a mess after the U.S. Bank went out of existence in 1836. Banks chartered by state governments were issuing notes (used as money) at such a rate that by 1862 there were at least 7000 different kinds and denominations of bank notes in circulation. Many of the notes had little or no value, people often had no way of telling which ones were good and which were worthless, the values fluctuated from time to time and place to place, and bank failures left many a person stuck with a pocketful of "red dog" (worthless paper money). To deal with this problem, the government established the **National Banking System** in 1863. The Federal government would charter a bank under certain conditions. Those wanting to charter a bank would have to buy government bonds, some of which were to be deposited with the government. The bank could then issue paper money, limited to 90 percent of the value of the bonds it had deposited with the government. Thus, there was a limit on the amount of money that could be issued, the money was backed by United States bonds, the notes were to be uniform in appearance, and counterfeiting would be more difficult. The banks would be under strict government supervision. The states could still charter banks, however, and today we have both state-chartered and Federally chartered banks. In 1865 a 10 percent tax was placed on notes issued by state-chartered banks. This, plus the fact that the national bank notes were recognized as being sound, caused state bank notes to disappear. For further consideration of taxation, note that taxes are sometimes used *not* for the purpose of raising money but to control certain things. The tax on state bank notes was designed to drive them out of existence, for people would naturally prefer to use the tax-free national bank notes. As we have seen, the protective tariff is a tax designed to block certain foreign goods. High taxes are sometimes placed upon undesirable commodities to discourage their use. For example, when phosphorus matches were found to be harmful to human health (workers in match factories often acquired cancer of the jaw) they were eliminated simply by putting a tax on them that made them uneconomical.

Inflation was a serious problem in both the North and South during the War. In the North, the price of cloth went up 400 percent, the cost of groceries and flour doubled, and rent, fuel and meat prices rose by 50 percent. The "greenbacks" had increased the amount of money in the economy, helping to push up prices. Feeling that "greenbacks" were less valuable than gold coins, sellers refused to give as many goods for a "greenback" dollar as for a gold dollar. In the summer of 1864 it took about 2½ "greenback" dollars to get the same amount of goods that one could buy with a gold dollar. Increases in consumer demand and in government spending also added to the inflationary pressures. It was much worse in the South. The Confederacy issued twice as much paper money with no gold or silver backing as did the North, and they had less capability of producing goods. At one point, meat cost $250 a pound and flour $1000 a barrel. In 1863, Confederate dollar notes were worth only 33 cents in gold money, and before the War was over their value had fallen to less than two cents worth of gold.

The costs of the War were staggering. Over 600,000 men lost their lives, cities and towns were burned to the ground, and Southern factories, farms, plantations and crops were destroyed. Nevertheless, progress was made in the North, as immigrants continued to arrive, as people moved West and opened new lands to agriculture, and as new machinery and better production methods were adopted by both farmers and industrialists. One interesting way of looking at the costs of a war, however, is to enumerate the goods and services that could have been produced with the money spent on guns, warships and the like. And how much could the soldiers of both sides have produced if they had been working in factories and on farms instead of killing one another?

DISCUSSION QUESTIONS

1. Show how the Constitution of the Confederacy reflected the economic policies favored by the South. To what extent were these policies really to the best interest of the South's economy?
   - **Tariffs and trade; role of slavery in the Southern plantation economy.**

2. Discuss the economic advantages enjoyed by the North at the start of the Civil War. Why did the South expect to win, despite its economic handicaps?
   - **Relative shares of productive resources; economic diversification vs. one-crop economy; importance of infrastructure, capital, technology; economic strength and warfare; economic relations with Europe.**

3. How did the South expect to obtain the arms, munitions, and ships necessary for winning?
   (a) Why did foreign economic aid to the Confederacy fall short of the South's expectations?
   - **How economic interests affect foreign policies.**

   (b) The Confederacy failed to estimate correctly the enemy's tremendous productive capability. Show how both the Kaiser and Hitler made the same mistake in later wars.
   - **Productivity; role of economics in warfare.**

4. Explain how the North used *indirect taxes,* such as customs duties and excise taxes, to raise revenue for carrying on the war.
   - **Various purposes of taxation; fairness of different kinds of taxes; impact of taxes.**

   (a) Why are indirect taxes called hidden taxes?

(b) Name some excise taxes paid by you or members of your family today.

5. The first income tax in American history was enacted during the Civil War.
   - **Direct and indirect taxes; tax rates (progressive, regressive, proportional); taxes and income redistribution; fairness of taxes; impact of taxes; tax burden then and now.**

   (a) Compare the rates, exemptions, and burden of the Civil War income tax with those of our Federal individual income tax today.
   (b) Why is the income tax called a *direct tax?*
   (c) Name some other direct taxes paid by your family today.

6. During the Civil War the Union government issued paper money, popularly called "greenbacks," to raise revenue for the war.
   (a) Why were the greenbacks called "fiat money"?
   - **Wartime finance; inconvertible paper money; legal tender.**

   (b) Why did silver dollars and coins "go into hiding" when greenbacks were issued?
   - **Gresham's Law*; intrinsic value of metal coins; inflation.**

   (c) Explain why the value of greenbacks fluctuated with the fortunes of war.
   - **Greenbacks as notes on the credit of the U.S. government; relationship between political stability and confidence in money.**

7. For over a century Americans boasted that United States currency was stable and safe. "Sound as a dollar" became a popular expression.
   (a) How did the serious balance of payments deficits in U.S. foreign trade of the early 1970's affect the stability of the American dollar?
   - **Importance of confidence in one's monetary unit; importance of good credit rating.**

   (b) Why did many Europeans prefer German marks to U.S. dollars in 1971?
   - **Supply and demand situation for dollars; effects of changes in relative values of different currencies.**

   (c) Why did American tourists find it difficult to exchange dollars for foreign currencies in 1971?
   - **Convertibility of currencies; effects of uncertainty about "weak" currencies.**

   (d) How did the Nixon Administration try to deal with the "dollar crisis"?
   - **Inflation controls; balance of payments problems; the dollar in the world economy.**

8. Both the Union and the Confederacy encountered serious financial problems during the Civil War. Explain how each of the following was a problem common to both.
   (a) Inflationary prices; (b) borrowing to finance the war; (c) higher taxes; (d) issue of paper money.

9. Compare conditions in the South before the Civil War with conditions there today, with reference to the following: (a) position of blacks; (b) agriculture; (c) manufacturing; (d) wealth.
   - **Economics of racial discrimination*; regional economic development.**

10. Show how the Civil War affected each of the following: (a) powers of the states; (b) agriculture in the South; (c) the blacks; (d) the powers of the President.

11. Show how the National Banking Act of 1863 was designed to (a) help solve the currency problem; (b) provide a market for government bonds.
    - **Problems of wartime finance; money and banking; Federal and state regulation of banks; reserve requirements; government bonds.**

12. Discuss the effects of inflation on consumers in the North and in the South in the 1860's.
    - **Inflation and cost of living; money supply; effects of inflation on creditors and debtors.**

    (a) How did the United States government attempt to forestall runaway prices during World War I, World War II, and the Korean War?
    (b) Were the anti-inflation measures of the Nixon Administration in 1971-72 "too little and too late"? Justify your answer.

13. Show how three developments in methods of transportation during the years 1800-1860 influenced the victory of the North in the Civil War.
    - **Importance of infrastructure; transportation and communication; regional economic integration; effects of common economic interests.**

14. Discuss the economic effects of the Civil War on the North and on the South.
    - **Economic growth and development; influence of economic groups controlling Federal government; tariff; development of the West; real costs of war; economic impact of abolition of slavery; depression; inflation.**

15. Was the good accomplished by the Civil War worth the cost in money, suffering and human life? Give reasons for your answer.

16. Should history books give more space to the role of women and of blacks in winning the Civil War? Give reasons for your answer.

17. Show how the following had an effect on the outcome of the Civil War: (a) McCormick's reaper; (b) black soldiers in the Union Army; (c) the common people of England; (d) the Union Navy and the merchant marine.

18. A famous American historian called the Civil War

*Overvalued money tends to drive undervalued money out of circulation.

*See Lester Thurow, *The Economics of Poverty and Racial Discrimination.* (New York: Joint Council on Economic Education, 1972.)

"the Second American Revolution." Do you agree or disagree? Explain your answer.

- **Impact of the War on industry, agriculture, finance.**

19. Why was the issue of greenbacks by the North during the Civil War considered "a forced loan"?

- **War financing; value of money; inflation; fiat money.**

20. Explain the extent to which the Republican Party redeemed the platform pledges it made in 1860.
    - **Infrastructure; land policy; immigration and population; tariff; railroads.**

ACTIVITIES

1. *Chart:* Prepare a chart comparing the resources of the North and the South in 1861 for carrying on a successful war. Include items such as the number of states, population, enlistments, capital, natural resources, manufacturing, railroad mileage, etc.
2. *Cartoon:* Draw a cartoon illustrating the abolition of slavery either from the Southern or the Northern point of view.
3. *Letters:* Ask the students to imagine themselves writing home about one of the following:
   - The effect of the Union blockade on a Southern port.
   - Economic conditions in a Southern town near the end of the War.
   - Inflation and its effect on the Southern standard of living.
4. *Report:* Investigate the number of national banks in your city or town. Explain to the class how a national bank differs from a state bank.
5. *Spell-Down:* Arrange for a spell-down on economic concepts, terms and trends for review for a unit test on the Civil War. Ask the students to submit questions for the spell-down in advance.
6. *Essay:* Using one of the quotations given below, write a position paper on the author's point of view:
   - "Slavery is a national sin." (Statement by William Lloyd Garrison)
   - "Slavery is a perfect good." (Statement by John C. Calhoun)
   - "A house divided against itself cannot stand." (Statement by Abraham Lincoln)
7. *Time Line:* Prepare a time line of important events leading to the Civil War.
8. *Graphs:* Construct a series of bar graphs to compare the resources (population, states, railroad mileage, etc.) of the North with those of the South.
9. *Map:* On an outline map of the United States, indicate by color and label the Confederate States, the Union States, the border states.
10. *Debate:* Resolved: That the Civil War was inevitable.
11. *Panel on Causes of the Civil War:* Assign several students to do research on and then present to the panel the economic, social and political causes of the Civil War.
12. *Dialogues:* Ask two students to conduct dialogues on each of the following topics:
    - Southern arguments justifying secession and the arguments against it.
    - Economic and social conditions in the North and the South during the Civil War.
    - Slavery versus "the other causes" of the Civil War.
13. *Simulation Game:* "The Union Divides" (Olcott Forward). Level: High School. Playing time: 4-10 hours. Number of players: 16-42.
14. *Filmstrip:* For a review of the causes of the Civil War, show either *Slavery and the War Between the States* (Yale) or *Sectional Conflicts 1850-1861* (Society for Visual Education).
15. *Motion Picture:* Show *The Story of Our Money System* (11 minutes; Coronet), to trace the evolution of exchange from a reliance on barter to the use of paper money. The film provides many examples of how money functions as a medium of exchange, and standard and store of value.

TOPIC 9

The United States Becomes a Leading Industrial Nation

Economic Facts, Concepts, Principles or Problems

Growth of big business
The corporation
Forms of business enterprise
Productivity
Urbanization

THE problem of Reconstruction kept the political pot boiling after the Civil War, and it should be noted that there were economic aspects of this problem. Many Northern manufacturers supported the so-called Radicals who favored harsh treatment of the South. It was feared by some Republicans that the former Rebels would form a coalition with Northern Democrats and repeal the Morrill Tariff and the Banking Acts. The economic interests of the various factions should be studied in some detail, although one must not be too quick to assume that economics provided the only motivation for their actions.

In spite of political problems and such economic setbacks as the Panic of 1873, the nation's economy grew rapidly. America was having its own **industrial revolution,** and whereas the United States had been in fourth place as a manufacturer of goods in 1860, it was in first place by 1894. As early as 1870, U.S. manufacturing output equalled that of Germany and France combined, and by 1913 it equalled the combined output of Germany, France and Britain. By 1900 we were producing seven times as many industrial goods as in 1865. Between 1865 and 1900 steel production rose by over 1000 percent. Railroad mileage increased from 35,000 to 260,000. Among the inventions of this period were the telephone, the electric light, the typewriter and the automobile. Such great new industries as meat packing and petroleum made their appearance. Students may gather many more facts of this nature (from such sources as *Historical Statistics of the United States*), but factors *causing* our **economic growth** should receive even greater attention. To apply the topic to more recent times, one might raise the questions—Which of the factors instrumental in America's great economic growth can be applied to the poor nations of today? What factors are most important to America's current economic growth? Are any of the factors that were desirable in the post-Civil War period undesirable now?

Rapid **population** increase was a factor in America's economic growth after the Civil War. Over 28 million immigrants entered between 1865 and 1915, adding to our labor force, expanding the consumer market, and encouraging business. Another was the increase in **capital stock** (such as factories and machinery) which rose at an annual rate of about 4 percent from 1869 to World War I. Since the labor force was growing more slowly, the amount of capital stock per worker increased. This helps to account for rising **productivity** on the part of labor. In the late 1870's about 20 percent of all U.S. output was going into material investment, and between 1899 and 1908 the figure was 28 percent. These are high rates.

Students should understand the importance of **capital investment.** To have economic growth, and to provide more goods and services for more people, we must sacrifice a certain amount of consumer goods so that some of our productive efforts can be channeled into the creation and improvement of the factories and equipment necessary to increase the production of consumer goods. In some way or other, every society has to decide on the "trade-off" between capital goods production and consumer goods production. If the economy is fully and efficiently employed, we can increase our capital stock only by giving up some consumer goods. We must sacrifice a certain amount of consumption today in order to have even more tomorrow. (Note that this fact was cited often by the Soviet leaders when they decided to concentrate on capital formation and let the people get by with shoddy consumer goods for many years.) One value question is: To what extent should the decision be left to the free market and to what extent should government decide on the "mix" between capital and consumer goods production? Others are: Should the current generation be asked to accept a low level of living so that a nation's resources can be devoted to capital accumulation that will benefit a future generation? How might a government encourage more capital investment without completely giving up the free enterprise system?

Education is extremely important in explaining our economic growth. Indeed, economists often say that the skills of the labor force and literacy are to be considered part of a nation's capital stock ("human capital accumulation"). During the period we are examining, an increasing proportion of the nation's resources was being channeled

into education. Direct expenditures for education rose from $35 million in 1860 to $290 million in 1900. (In relation to GNP, this was a rise from .008 to .017 percent.)* Studies have shown that investment in education is closely related to per capita income, and it is without doubt that education played a vital role in making the United States more productive. It can do the same today.†

The railroad provided higher quality service than water carriers, more direct routes, greater speed and safety, and year-round service. It lessened the need for transshipments, permitted settlement where there had been no water transportation, and made delivery dates more certain. Thus, insurance rates and warehouse charges declined. Farmers could relocate more easily, and grain and meat production soon became concentrated in the Trans-Mississippi West—a relocation that contributed toward rising agricultural productivity. (Between 1869 and 1914 net farm **output per man-hour** rose by 50 percent.) The telephone and the telegraph greatly aided in productivity increases, speeding up the exchange of information that is so vital in a market economy, helping to make marketing more efficient, and promoting greater competition.

Cities grew rapidly. In 1870, only 26 percent of the U.S. population was urban, and there were only 14 cities with a population over 100,000. By 1910, 46 percent of the population was urban, and there were 49 cities of over 100,000 people. Just as economic growth helped to speed urbanization, so too urbanization helped to hasten economic growth. (Economic growth means rising incomes, and as incomes rise people tend to spend a greater *proportion* of their incomes on nonagricultural products—the type of products usually produced in urban areas. Then, as cities grow and develop they offer many specialized services that are not available in rural areas.)**

*Albert Fishlow, "Levels of Nineteenth-Century American Investment in Education," *Journal of Economic History,* 26 (December 1966), 430.

†One way of helping people rise out of poverty is to increase their skills and education. As people become better educated, they become more productive. As they produce more they can earn more, and they are adding to the nation's total output as well.

**For a further discussion of this factor, see Robert Higgs, *The Transformation of the American Economy, 1865-1914* (New York: John Wiley & Sons, Inc., 1971). This book is a brief (127 pages of text) but very informative and scholarly account of the U.S. economy from the Civil War's end to World War I.

There was a great increase in **corporations** after the Civil War. To see the significance of this fact, the students should know about the other forms of business organization —**proprietorships** and **partnerships.** The advantages and disadvantages of each form should be listed and examined. (These can be found in most introductory economics texts.) Corporations were declared to be "legal persons," and the protections of the 14th Amendment were extended to them. The way in which corporations raise funds through issuing **stock** should be understood, for this usually enabled corporations to raise money capital more easily than proprietorships and partnerships. (The wealthy of Europe sent billions of dollars to America to help build our factories and railroads, and this could be done through the simple expedient of purchasing stocks or bonds.) The facts that owners usually have limited liability, that ownership can change hands literally in a matter of minutes (simply by selling one's stock), and that the corporation has a certain immortality were advantages. The concept of **economies of scale** is of great importance. Although it is indeed possible for a business firm to become too large to be managed efficiently (in technical terms, there can also be "diseconomies of scale"), the corporate form made it possible for firms to become large enough to engage in specialization, adopt mass-production techniques, hire the best employees, accumulate profits for reinvestment, sell in wider markets, buy in greater quantities (and thus at lower unit cost), and enjoy other advantages over smaller firms. Of course, the disadvantages should also be noted. Some corporations became powerful monopolies, the actual owners (the stockholders) often had little real control over the firm, and dishonest insiders sometimes engaged in corrupt practices for their own benefit at the expense of the general stockholder and the public. (For example, make a study of the Crédit Mobilier scandal.) The question of the extent to which corporations should be free from government control has been a controversial one throughout our history.*

*Some fear that corporations have too many legal rights without concommitant responsibilities. Jefferson is said to have feared that a corporation would be a legal body without a soul. One modern economist has stated that a corporation is a legal body whose posterior cannot be kicked. (He used terms more blunt than these.) On the other hand, corporations *can* be sued, fined and even broken up by the courts, and corporation officials *can* be imprisoned.

DISCUSSION QUESTIONS

1. In 1803 President Jefferson predicted that it would take a thousand years to settle the land beyond the Mississippi River, yet the Western frontier of the United States disappeared in 1890. Explain the role of each of the following in the growth of the United States: (a) immigration; (b) know-how; (c) investments by foreigners; (d) output per man-hour.
   - **Labor supply; population; expanding consumer market as stimulus for business; technology; innovations; education; productivity; profit motive; capital; human capital; production costs.**
2. Explain why the United States could be called an "underdeveloped country" in the decades immediately following the Civil War. How did wealthy European investors help to develop our country?
   - **Economic efficiency; capital and economic growth.**
3. The reconstruction of the South following the Civil

War was a matter of great concern to Northern manufacturers.

(a) Why did some Northern manufacturers support the harsh treatment of the South by the Radical Republicans?
- **Industrial vs. agricultural interests.**

(b) Describe the gains made by the Northern manufacturers during the War.
- **Industrialization; tariff protection; national banking system; subsidies and land grants.**

(c) To what extent were the gains erased by the Panic of 1873?
- **Business cycle; bank and business failures; unemployment; labor unrest.**

4. Why did the United States enjoy rapid economic growth following the Civil War?
- **Population; expanding labor force; inventions; increases in capital stock; productivity; new resources; education; urbanization; transportation and communication.**

(a) How can today's developing nations profit by America's experiences with rapid economic growth?
- **Role of capital and human capital; infrastructure (social capital).**

(b) What lessons can we draw from our post-Civil War growth that we might apply to current American economic growth?
- **Productivity; avoiding business slumps; research and development; education; government's role; "trade-off" between consumption and investment.**

(c) Are there any practices or policies that were desirable in the post-Civil War period that would be undesirable today? Explain your answer.
- **Over-exploitation of natural resources; too rapid population growth.**

5. From which countries did immigrants come before the Civil War? After the War?

(a) Why did the Homestead Act attract European immigrants?
- **Economic incentives for migration; population; government's role.**

(b) How and why did steamship and railroad companies encourage immigration?
- **Profit motive.**

(c) How did the stream of immigrants change after 1890?
- **Labor supply; conflicting interests of domestic labor and management.**

(d) Why did some Americans oppose unrestricted immigration while others welcomed it? Why were the first restrictions directed against the Chinese?
- **Labor supply and wages.**

6. How accurate are the "wild west" movies in terms of what they reveal about the economic and political life of the old West?
- **Government land and settlement policies; economic conflicts between ranchers and farmers, debtors and creditors.**

7. What do economists mean by investment? How does their definition differ from the way the term is often used by ordinary citizens?
- **Capital formation; money capital and physical capital.**

(a) Explain how investment depends upon saving.

(b) Why does investment often involve a sacrifice of a certain amount of consumption? Illustrate how this is so in the U.S.S.R. or Communist China.

(c) To what extent should the present generation be asked to do without consumer goods so that a nation's resources can be devoted to capital accumulation for the benefit of future generations?

8. Describe the economies of scale enjoyed by many large corporations. Discuss some of the "diseconomies" connected with large-scale enterprises.
- **Costs and output; mass production; efficiency; problems of management in large firms.**

9. One of the principal advantages of a corporation is its ability to raise large sums of money.

(a) Describe three sources of new capital from which a corporation can acquire funds.
- **Stocks; bonds; internal financing.**

(b) Why might a corporation prefer to raise capital by selling stocks instead of bonds?

10. Why has the corporation become the dominant type of business organization in the United States today?* Discuss the advantages of the corporate form of business.
- **Limited liability; "legal person"; specialization; economies of scale; distribution of risk; easy transfer of ownership; "immortality."**

11. In general, what types of business are best suited to individual enterprise or partnership rather than the corporate form?

(a) Compare the advantages of large-scale and small-scale business enterprises.
- **Economies and diseconomies of scale.**

(b) Discuss the factors which must be present before a small-scale enterprise can develop into a large-scale firm.
- **Importance of capital; entrepreneurship; product markets; increasing returns to scale.**

12. Why have cities historically been "centers of civilization?"

(a) Explain why cities grew in size and number following the Civil War.

(b) What is the relationship between urbanization and economic growth?
- **Specialization; transportation and communication; concentration of markets.**

*Actually, proprietorships are more numerous than corporations by a very substantial amount, but corporations account for the lion's share of receipts, value of assets and so on.

13. How did people travel west of the Mississippi before the railroads?
    (a) How did the transcontinental railroad systems open up the West?
    - **Infrastructure; social capital; transportation and communication; costs.**

    (b) Why were the western railroads essential for: (*1*) mining; (*2*) agricultural development; (*3*) meat packing; (*4*) food supplies for city dwellers?
    (c) How did the railroads: (*1*) raise the American standard of living; (*2*) increase the productivity of western farmers and ranchers?
    (d) Explain how the development of one industry, such as the railroads, helps the growth of others such as farming, steel making and manufacturing in general.
    - **Interdependence; specialization and exchange; technology; costs; markets.**

14. Why is the firm called "the basic unit or cell of our free enterprise economy"?
    - **Profit system; free enterprise; role of business in market economy.**

15. Why do economists consider the skills of the labor force and literacy to be part of the nation's capital stock, which they call "human capital accumulation"?
    - **Education and productivity.**

16. What were the provisions of the Homestead Act of 1862? Explain an important effect of the Act on each of two of the following: agriculture in the East; immigration; the Indians; the cattle industry.
    - **Land as a factor of production; government land policy; economic incentives.**

17. Discuss the effects of each of the following on the way of life of the Plains Indian: building of transcontinental railroads; the invention of the Colt revolver; the destruction of the buffalo; the Dawes Act.
    - **Impact of technology; economic growth; land policy; destruction of natural resources.**

ACTIVITIES

1. *Reports on "Captains of Industry":* For each of the following captains of industry (Cornelius Vanderbilt, Jay Cooke, Leland Stanford, Andrew Carnegie, Jay Gould, J. Pierpont Morgan, James J. Hill, and John D. Rockefeller), assign a student to prepare an oral report touching on the following basic points:
   His family's background
   His accomplishments in his field
   The benefits society gained from his enterprise
   His attitude toward laissez faire
   Your explanation of his outstanding success
2. *Graphs:* Have students make a bar graph indicating by decades the growth of manufacturing output between 1860 and 1890; make a line graph indicating the growth in output by decades between 1870 and 1900 for steel production, railroad mileage and meat packing. Source of information: *Historical Statistics of the United States.*
3. *Reports:* Ask individual students to make brief oral reports on:
   A. G. Bell and the telephone
   T. Edison and the electric light bulb
   J. D. Rockefeller and the oil industry
   A. Carnegie and the steel industry
   Wright Brothers and aviation
4. Have students investigate and report on the kinds of immigrants (or migrants) who came to your community in the past century. What kinds of work did they chiefly engage in then? Now? What contributions have they made to the economic and cultural life of your community?
5. *Interview:* Ask an elderly person who was born in Europe but who came to America the following questions:
   (a) Why did you come?
   (b) What difficulties did you encounter as a "greenhorn"?
   (c) To what extent did you find in America what you expected to find?
6. *Maps:* Students may be asked to prepare (a) a map of the routes from the Mississippi to California before 1860; (b) a map of the rail and waterways circa 1880; and (c) a map of the principal national highways today.
7. *Diary:* Ask a student to prepare a fictional diary or letters describing a trip West on the Union Pacific Railroad in the 1870's.
8. *Special Reports on Railroads:* Ask interested students to investigate and report on the following:
   Crédit Mobilier scandal
   Railroad financing methods
   Construction problems in building transcontinental railroads.
9. *Adventure Story:* Write an adventure story based on an imaginary trip from St. Joseph to San Francisco at the time of the Civil War. Descriptive material is available in Mark Twain's *Roughing It* (Chapters 1-8). Describe how you would travel, the hardships and dangers involved, and what you would see and encounter.
10. *Graph:* Make a line graph indicating total expenditures for education in the United States betwen 1860 and 1900.
11. *Individual Research Paper:* Have a student do a simple research paper on how investment in education (years of schooling) is related to personal income and to lifetime earnings.
12. *Chart:* Construct a chart comparing the advantages of large- and small-scale business enterprises. Include such items as sources of capital, risks involved, rela-

tionship between owners and employees, responsibilities of owners, marketing problems, overhead costs, and the role of research and development.

13. *Cartoon:* Draw a cartoon depicting the effect of mass production, standardization, or big business on American life.
14. *Chart:* Draw up a chart (arranged as illustrated below) to summarize the advantages and disadvantages of the three forms of business organization:

Single Proprietorship	*Partnership*	*Corporation*
Advantages	Advantages	Advantages
Disadvantages	Disadvantages	Disadvantages

15. *Record:* Play "The Great West: Historical Narration and Music" (American Heritage Series). It depicts American westward expansion in narration and melody.
16. *Sound Filmstrip:* Play "Yesterday's West" (Universal Education and the Visual Arts), a series of 2 LP records and 4 filmstrips describing the events and people of the American West in the 19th century.
17. *Game: "Promotion"* (Science Research Associates). Game simulates interacting developments of city growth, industrial growth, and railroad expansion in late 19th century America. Level: Junior and Senior High School. Playing time: 1-2 hours. Number of players: 25-35.
18. *Game: "Reconstruction"* (Science Research Associates). Game simulates the relations between planters, freedmen, and self-sufficient farmers amid the economic disruption in the South after the Civil War. Level: Junior and Senior High School. Playing time: 1-2 hours. Number of players: 25-35.
19. *Motion Picture:* Show *Westward Movement: 1790-1890* (11 minutes; Encyclopaedia Britannica) as an overview of the growth of the West, or *Pioneers of the Plains* (11 minutes; Encyclopaedia Britannica) to show the building of a sod house, and plowing and planting the plains.
20. *Filmstrip:* Show *Union and Reconstruction* (Yale) to teach the post-Civil War years in the South.
21. *Filmstrip:* Show *Farmer, Rancher, and Cowboy* (Yale) to teach how the plains were opened to farming and how it led to conflicts between "nesters" and ranchers.
22. *Motion Picture:* Show *Immigration* (11 minutes; Encyclopaedia Britannica), which treats the topic of immigration from colonial times to 1920, to stimulate a discussion of the contributions of immigrants to American civilization.
23. *Motion Picture:* Show *What Is Business?* (11 minutes; Coronet) to explain the process of production, distribution and service.
24. *Motion Picture:* Show *What Is a Corporation?* (11 minutes; Coronet) to compare the advantages and disadvantages of individual ownership, partnerships and corporations.
25. *Filmstrip:* Show *Agricultural Revolution* (Young America) to illustrate how the machine changed farm life.
26. *Oral Reports:* Ask your students to present brief thumbnail sketches on the contributions of each of the following inventors to American economic and social life: Pullman, Westinghouse, Morse, Field, Bell, Sholes and Edison.
27. *Filmstrip:* Show *The New South: An Economic Overview* (Current Affairs Films) to teach how technological change is transforming the Southern United States from an agricultural to a modern industrialized region that has also been undergoing an agricultural revolution.
28. *Motion Picture:* Show *The Modern Corporation* (28 minutes; Sutherland Learning Assocates) to explain why a single proprietorship becomes a corporation and to describe the principal effects of competition and monopoly.

TOPIC 10

The Protest Movements

Economic Facts, Concepts, Principles or Problems

Labor unions
Functional distribution of income
Farm problems
Women's rights

ALTHOUGH the United States made great economic progress after the Civil War, this progress was uneven (for example, the periods from 1873 to 1878 and 1893 to 1897 were periods of major **depressions**) and there were many who did not seem to be getting a fair share of the nation's increasing wealth. Various protest movements emerged on behalf of the workers, the farmers, women, the urban poor, immigrants and other groups. One of the most interesting and important elements in American economic history is the growth of **labor organizations.** Many high school students are about to enter the labor force (and many have already done so), and it is imperative that they have an understanding of the role of labor **unions** in the United States economy.

Why unions were formed and how they developed should be studied. It would help to backtrack at this point and to contrast conditions in the late 1700's and early 1800's with those of the post-Civil War period. The contemporary situation should also be noted, of course. Unions did exist back in the 1790's, although they tended to be small and localized. Also, they were often not intended to be permanent organizations, but would disband as soon as the workers' immediate objectives (such as higher pay) were achieved. More importantly, most factories and shops were small enough so that employees could have close personal contact with the employer, many workers could easily return to farming if factory work proved to be unsatisfactory, and it was not uncommon for workers to raise some of their own food on their own property and thus not have to rely solely upon their wages for subsistence. After the Civil War, however, cities grew larger, factories located in urban areas, slums developed, it became impossible for the industrialist to know each worker personally, and urban workers could no longer raise some of their own food and thus became totally dependent upon wages. Immigrants were pouring in from abroad, increasing the labor supply, helping to keep wages low, accepting working conditions that native Americans would not tolerate, and even serving as strikebreakers. The end of the frontier meant fewer opportunities to move West and turn to farming when factory work and urban life became oppressive.

Some of the **wage theories** that were espoused by employers during the 19th century should be examined. The so-called **"iron law of wages"** was the generalization that wages tend to settle at a point just barely high enough to maintain the working classes at a bare subsistence level of living. If the wage goes above this point, the workers will have more children and the supply of labor will thus increase. The **law of supply and demand** will now function to push the wage rate down—perhaps even below the subsistence level. Workers having difficulty feeding themselves will not be inclined to have children, so the labor supply will diminish. Now the law of supply and demand pushes wages up until they again reach that point where the rate is at the subsistence level. In somewhat overly simplified terms, this was a theory of what happened to wages in the long run. Some employers saw this as being what *ought* to happen and argued that it was folly to pay workers more than the subsistence wage. One employer reportedly stated: "When workers get starved down to it, then they are going to work at what you can pay."* The U.S. experience in the 20th century, of course, has disproved many of the theories. Higher paid workers do not always produce more children, and the worker whose income is well above the subsistence level is better able to buy the output of industry.

Other theories that might be examined are the **wages fund theory,** the **marginal productivity theory,** and the **bargaining theory.** According to the wages fund theory, employers use income from previous years to buy materials, pay rent, pay interest and hire labor. A specified amount (the wages fund) is set aside for labor. An increase in the number of workers will reduce the wage rate because more people will be sharing the same amount of money. If the labor supply diminishes, on the other hand, the wage rate will rise. Given a fixed wages fund and a fixed supply of labor, if one group of workers successfully fights for an increase, some other group will have to take a cut in pay. And, if the entire wages fund were increased, there would be less return for the other factors of production (land, capital and enterprise).

The **marginal productivity theory** is more complex, and the reader should study a standard economics text, or books on labor economics and wages, for details. In essence, this theory asserts that the wage rate will be the

*Harvey C. Bunke, *A Primer on American Economic History* (New York: Random House, 1969), p. 77.

marginal revenue product of labor.* All workers of the same type will get the same wage, which is the marginal productivity of the last worker hired. A firm will keep hiring workers as long as the last person hired adds enough to total revenues to pay his own wage, at least.

The **bargaining theory** is especially important in a study of unionism. There is a maximum and minimum point for the wage rate, and the actual wage will be determined by the relative bargaining power of management and labor. A worker's **opportunity cost** might set the minimum point, for (all other things being equal) he will not work for Firm X if he can get a higher wage at Firm Y. (In the long run, the bare subsistence level might set the lowest possible wage, for workers must earn at least enough to keep themselves alive.) The maximum wage rate, then, is set by the worker's productivity. If a worker adds $30 a day to the firm's revenues, and that same worker can get $25 a day for doing the same job elsewhere, then his wage will be somewhere between $25 and $30. If the worker is in a weak bargaining position (the supply of labor is large, there is high unemployment, or he has no union to protect him), then the wage will be near the minimum point. If he is in a strong bargaining position (labor is scarce, there is full employment, employers are fiercely competing with one another and need all the workers they can get, or he has a strong union) then the wages will be close to the maximum point.

The basic issue here is the **functional distribution of income**—the sharing of income among the factors (land, labor, capital and enterprise) that produce that income. **Labor** can be defined as all productive human effort, and labor's share is called wages. **Interest** is the share going to those who provide funds for capital investment, **rent** is the share going to those providing land, and **profit** is the residual which accrues to the risk-taking entrepreneur. (Value questions: Is the entrepreneur the only one who takes a risk, or do labor and the other factors of production also risk something? If so, should they share in the profits? Just how should we determine who gets what share of the pie? What constitutes a "fair" profit? How can we decide what is a "fair" wage? Can a mass-production economy succeed without creating a basis for mass *consumption*?) The controversy over how income is to be shared provides many of the fireworks that enliven American economic history. Among the tantalizing questions that might be explored by the class is: Is it possible for one factor of production to increase its income without at the same time decreasing the share going to another factor?

Better wages have always been a basic aim of organized labor. One of the causes of the great railroad strike of 1877, for example, was the fact that wages were being cut while stockholders were receiving larger shares. There are many interesting facts that can be used in your lessons. For example, it is said that in 1900 Andrew Carnegie's income was $23 million (and there was no income tax!), while the average American worker was receiving somewhere between $400 and $500.* Thus, Carnegie's income was nearly 50,000 times greater than that of the average worker! Students should understand, however, that unions have many other goals beside wages. (This is particularly important because the press has often emphasized the wage demand during labor disputes at the expense of other important issues.) As many as 35,000 workers have been killed in a single year in job-related accidents, and thousands more have suffered from serious injuries or diseases. Children were set to work as early as 4:30 in the morning and sent home at nightfall—putting in a 90-hour week and receiving as little as one dollar for the entire week's work. Unions were considered illegal organizations by early courts, and in many other ways the forces of government were often brought to bear against the workingman. It is true that workers sometimes employed violence, but so did management and government. Such confrontations as the railroad strike of 1877, the Homestead Strike (1892), and the Cripple Creek Strike (1894) are exciting, and it is the strike or the occasional act of violence that will capture the headlines. It should be stressed, however, that the overwhelming majority of labor-management differences today are settled peacefully at the bargaining table. It might be noted, too, that workmen's organizations often take an interest in problems that are not "pure and simple" union matters. Some of the earliest worker groups fought for free public schools; modern unions sometimes serve as a "people's lobby" to promote better housing, slum clearance, pollution control, tax reform and the like.

The right to organize and to bargain collectively is probably the most basic and most important of labor's demands. Once the workers have been able to form a union, and that union has been recognized at the rightful **bargaining agent,** there is a better chance that the other typical demands (higher pay, a shorter work week, better and safer working conditions, job security, and fringe benefits) will be met. In the past, unions were seen as illegal conspiracies. Although a Massachusetts court ruled in 1842 (Commonwealth vs. Hunt) that unions were lawful, governments were generally either indifferent toward labor or took the side of management until about 1932. The Sherman Act, designed as an antitrust law, was used against labor, and court injunctions against strikes were common until limited by the Norris-La Guardia Act of 1932. In 1935 the National Labor Relations Act (Wagner Act) established the right of workers to join unions and bargain collectively (see Topic 16). The class should evaluate the demands of labor, note the extent to which they have been met, and identify the goals that are still unfulfilled. Finding that even today many workers are killed or injured on the job, that children are still being employed in hard and dangerous farm occupations, and that inequities in wages exist, the students should discuss the question of how best to remedy these ills. The approach to labor-management issues should be as objective and unemotional as possible. The notion that one side is always right and the other always wrong

*This assumes that workers are competing with one another for jobs; employers are competing for workers; labor is mobile and will move to the area where wages are highest; capital is mobile; full employment exists; the value of labor's marginal product can be ascertained; workers of the same type are interchangeable and receive the same wage; and employers are seeking to maximize profits.

*Frederick Lewis Allen, *The Big Change* (New York: Bantam Books, 1952), pp. 24-25.

should be avoided. One must "stick to the facts," and apply the economic tools of analysis.

Union structures can be examined, so that students understand the meaning of **craft union, industrial union, local, national, international** and **federation.** The so-called weapons of labor and of management can be defined and compared. Strike, lockout, boycott, agency shop, closed shop, open shop, union shop, arbitration, bargaining unit, checkoff, company union, cooling-off period, escalator clause, featherbedding, mediation, fringe benefits, guaranteed annual wage, injunction, picketing, productivity, right-to-work law, shop steward, and yellow-dog contract are some of the terms to be understood.* Later in the course there will be further opportunities to reinforce and augment this study of the labor movement.

As for other groups that were demanding fairer treatment, the farmers are particularly worthy of study. Was the average farmer of the late 19th century really suffering from excessive railroad charges, land monopolists and speculators, and unreasonably high interest rates? (And to what extent are the complaints of the farmers of today justified?) The answer is far from simple, and economic historians have been doing a great deal of research on this subject. If railroad rates were indeed rising at a particular period in history, can it be assumed that this hurt the farmer who relied upon the railroad to get his crops to market? This assumption cannot be made out of hand. One should ask such questions as: Were the rates rising faster than the prices the farmer received for his products?*

The fight for women's rights certainly has economic implications. It is important to realize that our economy as a whole is affected by discrimination. People who are denied jobs that they are capable of holding (or denied educational opportunities that would train them for better jobs) are not producing as much as they could be producing. Thus, their incomes are lower than they could be, and the total national income is lower. Undoubtedly, our current GNP would be higher by several billions of dollars if blacks, women and other victims of discrimination were accorded equal opportunities. Many of the great women of American history fought not only for their own rights but to obtain a better level of living for blacks, the poor, the inmates of asylums and prisons, and the workers in general. Movements to obtain better health and housing likewise have economic significance. Poor housing and disease often go hand in hand, and—aside from feeling compassion for those who are ill—we should realize that by ending these conditions we improve the output of the persons involved. Work lost because of illness is a cost to society. Also consider the **opportunity cost**—what we could be producing if we did not have to devote scarce resources to medical care. Finally, the problems of the cities can be studied at this point also.

*See Robert E. Doherty and Gerard A. DeMarchi, *Industrial and Labor Relations Terms*, Ithaca, New York: Cornell University, 1971, for a brief glossary. This booklet is available from Cornell at 50¢ per copy.

*For a brief but excellent discussion of the farmer's complaints, see Higgs, *op. cit.*, pp. 86-102.

DISCUSSION QUESTIONS

1. What is a protest movement? Why did protest movements develop in the second half of the 19th century? In the 1960's and 1970's?
   - **Causes of inequality; functional distribution of income.**
2. What are wages? Why do wages differ? About what percentage of the annual National Income is accounted for by wages?
   - **Labor productivity; distribution of income.**
3. How might wages in a one-company town compare with wage rates in towns where several companies are operating in the same industry? What accounts for the differences?
   - **Demand for labor; monopolies; company unions; labor's bargaining power.**
4. How are wages determined in a competitive free market economy?
   - **Supply and demand; labor productivity.**
   (a) What is the highest wage a worker can ordinarily expect to be paid?
   - **Labor's productivity.**
   (b) What is the lowest wage that a worker will ordinarily accept.
   - **Subsistence wage; opportunity cost.**
   (c) Explain the "iron law of wages."
   - **Supply and demand for labor; labor productivity; subsistence; other wage theories.**
5. How does the proprietor of a beauty salon decide on the exact number of beauticians he will employ?
   - **Marginal productivity; business costs and revenues.***
6. Which jobs in your community bring the highest pay? Which bring the poorest? How do you account for these differences in wages?
   - **Theories of wage determination; labor productivity; labor unions; demand for labor.**
7. What is meant by the "labor force"?
   (a) Explain the major changes that have occurred in the labor force in recent years.
   - **Predominance of service industry jobs; increasing role of women; role of education.**

*A firm will keep hiring workers as long as the amount that a worker adds to the firm's total income (his "marginal revenue productivity") is greater than—or at least equal to—his wage. Thus, if a new worker adds $30 a day to the firm's revenues, and his wage is $27 a day, the firm will hire him. The firm will stop hiring new workers at that point where the last worker's wage just equals the amount he adds to revenues.

(b) Why are changes in the labor force important to you as a high school student?
- **Career planning; education for the world of work.**

8. In what way did early American unions differ from the unions of today?
   (a) Why did the courts consider the early American unions to be illegal?
   - **Unions as "conspiracies" under old common law; collective bargaining; goals of labor.**

   (b) What is the significance of the case of Commonwealth vs. Hunt (1842), decided by Judge Lemuel Shaw of Massachusetts?
   - **Legal recognition of unions; labor and government.**

9. Why did union organization seem to be more important to American workmen after the Civil War?
   - **Changing industrial situation; urbanization and the worker; working conditions; wages; collective bargaining; immigration; goals of unions.**

   (a) How did employers try to resist some of the demands of the workers?
   - **Weapons of management (lockout; blacklist; company union; yellow dog contract; etc.)**

   (b) What role did government play in labor-management affairs after the Civil War?
   - **Court injunctions; use of police and troops; state and Federal labor laws.**

10. Why do workers join unions?
    - **Collective bargaining; functions of unions; union-sponsored legislation.**

    (a) How do unions attempt to influence wages and working conditions?
    (b) Why did the growth of trusts lead to labor troubles?

11. How did the American Federation of Labor differ from the Knights of Labor?
    (a) How did Terrence V. Powderly differ from Samuel Gompers in philosophy, objectives and policies for union action.
    (b) Why did the AFL succeed while the Knights failed?

12. Explain the impact of the American labor movement on each of the following: the protective tariff, cheap land in the West; unrestricted immigration; growth of national business organizations.

13. Discuss the aims of labor and the aims of management in negotiating at the bargaining table. How do they differ? In what ways are they similar?

14. Explain each of the following peaceful methods of settling labor-management differences: collective bargaining; mediation; arbitration; fact-finding boards.

15. Should employers have unrestricted rights to impose lockouts? Should unions have unrestricted rights to call strikes? Should government intervene when work-stoppages inconvenience the public, or threaten public health and safety? Defend you views.

16. What are profits?
    - **Profits as the "residual share"; business costs and revenues.**

    (a) How might each of the following gain if business profits are good? Investors; management; consumers; workers; government.
    - **Profits as incentives to save, invest, improve production techniques; as rewards for efficiency; use of profits to create new and better products; as source of taxes; as stimulus for economic growth.**

    (b) How do government policies affect profits?
    - **Taxation; price controls; fiscal and monetary policies; minimum wage laws.**

    (c) Is it possible to have high wages *and* high profits in the same industry? Explain.
    - **Productivity; functional distribution of income.**

17. What group formed the background of the Populist Party?
    (a) Describe the platform of the Populist Party.
    - **Money and banking; taxation; land policy; immigration and labor; transportation and communication; government's role in the economy.**

    (b) How successful was the Party in achieving its ideals?

18. Organized labor experienced many hardships and setbacks during the 50-year period following the end of the Civil War. Discuss the major problems facing unions during this period and the reasons for their setbacks.
    - **Distribution of income; government and labor relations; labor and business cycles.**

19. Explain at least one effect of each of the following on American economic and political life: (a) the Greenback Party, (b) the Granger Movement, (c) the Populists, (d) the farm bloc.
    - **Money and banking; distribution of income; taxation; farm problems; government's role in the economy.**

20. Show how the Federal government attempted to meet one major demand of the Western farmers in the last quarter of the 19th century.

21. How are the problems of the cities in the 1880's and 1890's similar to the problems of cities today? How do they differ?
    - **Housing; transportation; slums; poverty; welfare; congestion; costs of health care.**

22. Although the Republican and Democratic parties have dominated American politics since the Civil War, much of the economic and political progress of the American

people is said to be the result of the pressure of third parties. Do you agree? Explain your answer.

23. Discuss the effect of each of the following on the American workman: (a) the end of the frontier; (b) increased use of machinery; (c) the rise of "company towns"; (d) business panics; (e) the growth of industrial combinations; (f) government involvement in labor-management affairs.
    - **Supply and demand for labor; automation; productivity; monopoly powers; the business cycle; labor legislation.**
24. Compare hours, wages, working conditions, and fringe benefits in the 1870's and the 1970's. Explain the differences.
    - **Collective bargaining; labor contracts; health, safety, and workmen's compensation laws; child labor laws; social insurance; minimum wage laws.**

ACTIVITIES

1. *Then-Now:* Plan a series of skits to illustrate the nature of protest movements on behalf of the nation's workers, farmers, women, the urban poor, immigrants and other minorities in the second half of the 19th century and in the 1970's.
2. *Graph:* Using *The Statistical Abstract* or *Historical Statistics of the United States,* prepare line or bar graphs on the number of workers in agriculture, mining, trade and other areas for the decades from 1870 to 1970.
3. *Short Paper on Career:* Ask students to prepare a short paper on the job they are considering as a career. Include the job characteristics, the supply of potential applicants, and the advantages and disadvantages of their chosen profession or vocation.
4. *Speaker:* Invite a representative of labor to the classroom to give a first-hand account of the history of a local union. In the course of his talk, the labor spokesman might indicate its affiliation and its program.
5. *Book Report:* Some fiction vividly portrays the life of ordinary folk on the farms and ranches during the period of the Agrarian Crusade. A student may, for example, wish to report on Hamlin Garland's *A Son of the Middle Border* or O. E. Rolvaag's *Giants in the Earth.*
6. *Oral Reports:* Ask the students to do library research on the origins, structure, achievements and shortcomings of the following 19th century unions.
   The National Labor Union
   The Knights of Labor
   The American Federation of Labor
7. *Chart on Industrial Warfare:* In one column of a two-column chart, have the students list the chief weapons in labor's arsenal (picketing, boycott, union shop, etc.) and in the other the countermeasures for each of labor's weapons that management has developed.
8. *Topics for Panels and Debates:*
   Should workers join unions?
   Can unions and businessmen keep industrial peace?
   Has collective bargaining been a failure in keeping industrial peace?
   Should the government regulate unions in the public interest?
   Should unions be incorporated and held responsible for the actions of individual members?
9. *Sociodrama:* Organize the class into an impromptu union membership meeting for the discussion of a controversial issue—the opening up of traditional men's jobs in the welding department of the local foundry to women employees.
10. *Interview:* Ask a representative of a union and of a local company that has a union to come to class and explain how they bargain collectively with each other.
11. *Great Labor Statesmen:* Organize the class as a committee to nominate three labor leaders of the past as Great Labor Statesmen. Ask individual class members to prepare briefs on leading candidates such as Samuel Gompers, John L. Lewis, Terrence Powderly, Walter Reuther, etc. After a general discussion, ask the class to vote.
12. *Poem:* Reading Edwin Markham's short poem, "The Man With the Hoe," will give the students a deeper insight on the victims of economic conditions at the end of the 19th century.
13. *Time Line:* Draw a time line for Milestones in American Labor History (1790-1973). The time line might include the Philadelphia Carpenters Union (1791), Mechanics Union Trade Association, Philadelphia (1827), Commonwealth vs. Hunt (1842), Molly Maguires (1854), Brotherhood of Locomotive Engineers (1863), National Labor Union (1866), Knights of Labor (1869), American Federation of Labor (1886), Congress of Industrial Organizations (1938), AFL-CIO merger (1955).
14. *Collective Bargaining Session:* After studying a union contract (such as the one in the appendix to Faulkner and Starr, *Labor in America*), the class may engage in role-playing by negotiating its own union contract. To accomplish this divide the class into management, labor and mediation committees. Items that might be considered would include hours and wages, vacation time, fringe benefits, a guaranteed annual wage.
15. *Role-Playing:* Convert the class into a Convention of the State Grange preparing its platform for the election of 1896. Assign individual students to explain to the convention why the following planks should, or should not, be included in view of the fact that most farmers are perennial debtors: tariffs on manufactured goods, the gold standard, tight credit controls, free coinage of silver, regulation of railroads, government

ownership of public utilities, a liberal land policy. By way of summary, let the class adopt a platform.

16. *Game:* "Farming" (Macmillan). Farming exposes students to some of the factors affecting decision-making by farmers. Level: Junior and Senior High School. Playing time: 46 hours. Number of players: 15-30.
17. *Filmstrips:* Show selected reels of *Big Business and Labor (1870-1917),* a series of 15 "critical thinking filmstrips," produced by Modern Learning Aids.
18. *Simulation Games on Labor:*
    "Strike" (Interact) simulates late 19th century labor-management relations in two phases: Phase I culminates in either a strike, lockout, or fumbling attempts at collective bargaining. Phase II simulates a contemporary collective bargaining session. Level: Junior and Senior High School. Playing time: 20 hours. Number of players: 20-40.
    "Collective Bargaining" (Science Research Associates) simulates the atmosphere and conditions that prevail during negotiations of a new labor contract. Level: Senior High School and undergraduate college. Playing time: 2-5 hours. Number of players: 6-40.
    "Strike" (Macmillan) simulates the complexities of labor-management relations and methods of achieving objectives and resolving conflicts. Level: Senior High School. Playing time: 2-3 hours. Number of players: 16-40.
19. *Role-Playing:* Select nine students to serve as Justices of the Supreme Court hearing the case of Munn versus Illinois. Choose two or three bright students to serve as attorneys representing the railroads and two or three representing the State of Illinois. Let the rest of the class represent reporters. Ask the reporters to write a news item on the proceedings as homework.
20. *Motion Picture:* Show *Bargaining Collectively* (10 minutes; Teaching Film Custodians) to illustrate the reasons why a union asks for the right to bargain collectively with management.
21. *Recording:* Play a recording of Bryan's "Cross of Gold" speech of 1896 to set the tone for a discussion of the Populist Movement (Caedmon, *Great American Speeches*).
22. *Filmstrips:* Among the numerous filmstrips on labor and labor problems, the following are helpful:
    Collective Bargaining; Labor; Government and Labor (Stanley Bowmar Co., 4 Broadway, Valhalla, N.Y. 10595).
23. *Motion Picture:* Show *Labor Comes of Age* (19 minutes; Encyclopaedia Britannica) to depict the growth of labor unions and the strengthening of collective bargaining.
24. *Motion Picture:* Show *The Labor Movement: Beginnings and Growth in America* (14 minutes; Coronet) to review the history of organized labor from the Civil War to World War I.
25. *Book Reports:* Ask interested students to read classic monographs on the farm problems of the second half of the 19th century such as Buck's *The Agrarian Crusade,* Dale Kramer's *The Wild Jackasses: The American Farmers in Revolt,* or John U. Hick's *Populist Revolt.*
26. *Filmstrip:* Show *Organized Labor in Today's America* (Current Affairs Films, 1970) to summarize the history of organized labor in America and the problems confronting unions in the United States today.
27. *Filmstrip:* Show *The Distribution of Income* (World of Economics Series—McGraw-Hill) to show how wages, interest, rent and profit are determined (uses marginal analysis: recommended for advanced students).
28. *Motion Picture:* Show *Strike in Town* (38 minutes; McGraw-Hill) to teach how compromise is used to solve labor-management issues.
29. *Filmstrip:* Show *Wages and Hours* (World of Economic Series—McGraw-Hill) to show how wages are determined in the market by forces of supply and demand and how market forces are sometimes modified by custom, government action and activities of trade unions.

TOPIC 11

Business Concentration

Economic Facts, Concepts, Principles or Problems

Monopolistic practices
Interstate Commerce Commission
Sherman Act

WE touched upon some of the problems of big business in earlier topics, but this issue is one that is still causing friction in our economy and deserves more intensive study. Our view is that big business is not evil *per se*. Generally, however, large firms enjoy more economic power than small firms, and that power is sometimes abused. The activities of some of the so-called "robber barons" of the late 19th and early 20th century make interesting reading. The battle for control over the Erie Railroad (1868) was fascinating, and would make an interesting (if somewhat extreme) case study. The terms **monopoly, oligopoly, monopsony, oligopsony, monopolistic competition,** and **ratio of concentration** should be understood by the class.* Some of the possible effects of business concentration (higher prices, above normal profits, lower output, lower quality, and price and rate discrimination) should be noted.

It is possible to demonstrate that prices and profits tend to be higher and output lower in industries where perfect competition does not exist. In college courses this is usually done by comparing demand, marginal revenue, average total cost and marginal cost curves of the firm in pure competition with those of the monopoly firm. The result shows that the firm in pure competition (in long-run equilibrium) is producing at its most efficient point (the lowest point on the average total cost curve) and that the price of the product is just barely high enough to cover the cost of producing that product. The monopoly firm, on the other hand, is not producing at the lowest point on the ATC curve, the quantity of output is less than it would be in pure competition, the price is higher, and the monopolist makes a pure profit—that is, he makes more than is necessary to keep him in the industy. It is *not* recommended that this procedure be used in high school courses except with very bright students. Every student can understand, however, that monopoly power can mean higher prices for the things that he buys and thus reduce his real income.

Most history texts set forth the complaints of farm organizations (such as the Grange, formed in 1867) against the high rates charged by the railroads. State laws designed to control railroad rates were rendered ineffective by a Supreme Court ruling in 1886 that those laws could apply only within the state that enacted them. Railroads usually crossed state lines, so the fact that the Constitution had given Congress the power to control interstate commerce became important. The Interstate Commerce Act of 1887 and the establishment of the Interstate Commerce Commission are landmarks, although their impact was not as great as many had hoped it would be. Even today, there are criticisms of the ICC, and these might be examined and compared with the complaints of the farmers in the 1880's. Some of the other industries which were highly concentrated in the 1880's and 1890's were oil refining, coal production, gas, and electric lighting. The value question, again, is the extent to which government should intervene in the economy to control the activities of big business, to promote competition, and to regulate **natural monopolies.***

The various methods by which business concentrations are formed are not hard to understand. The **trust** was a common means of monopoly formation in the 1880's. (Be sure to distinguish between the meaning of this term as a specific monopolistic device and its use as a general term to refer to almost any type of business concentration.)† **Holding companies, gentlemen's agreements, price leadership, mergers,** and **pools** were also used to destroy

*Monopoly means one producer; oligopoly means a few producers in an industry. Monopsony means one *buyer;* oligopsony means a few buyers. Monopolistic competition is similar to pure competition, but because of product differentiation, advertising or the like, all of the conditions for perfect competition cannot be found. The ratio of concentration is usually the percentage of total sales or output accounted for by the four largest producers in the industry.

*Some industries, by their very nature, are not suited for pure competition. That is, it is actually more economical for one firm to be the sole producer. For example, note how inefficient and wasteful it would be to have several telephone companies in one city, or several bus companies operating bus lines on one street. Public utilities are usually classified as natural monopolies and given franchises by government. Because of their monopoly position, they are regulated by some sort of public service commission. Public utility regulation presents many problems. They are entitled to a fair return, for example, but what *is* a "fair return"?

†A large oil company developed the trust as a specific monopolistic device. It had the stockholders of 40 different oil companies turn their stock over to a group of "trustees." The stockholders received trust certificates to show that they had given up their shares, and the trustees then had the power to control the 40 corporations which still existed as separate corporate entities. The effect, of course, was the same as if the 40 firms had merged into one, and the public was not deluded by this arrangement. When the courts found the trust to be illegal, monopolists turned to the holding company and other techniques of destroying competition.

competition. A holding company is a corporation which gains control over other corporations by acquiring enough of the shares of stock to do so. (Even today, a holding company is not illegal *per se*.) In a gentlemen's agreement there is an informal understanding that all participating firms will charge the same price or in some other way reduce competition among themselves. Price leadership is an arrangement whereby one firm sets prices and the others follow along. A merger occurs when one corporation buys all the stock of another, and thus the second firm goes out of existence as a separate corporate entity and all of its properties belong to the senior firm. (Mergers are not *per se* illegal. There have been over 19,000 mergers in mining and manufacturing since 1948. A merger is not necessarily bad. For example, if a small firm is on the verge of collapse it may be acquired by a larger and stronger company and continue to operate—producing products and providing jobs. Sometimes mergers of two or more relatively small corporations have been sanctioned on the ground that this led to greater efficiency or enabled them to compete with one or more huge corporations in the same industry.) Pools have been formed, whereby the various firms in an industry agree to share the market and not encroach upon one another's territory. Large companies have sometimes formed patent pools, agreeing to share inventions with one another but not with smaller competitors.

Demands that government do something to control monopolistic practices came from farmers, small businessmen, consumers and workers. The Sherman Anti-Trust Act of 1890 outlawed trusts and other combinations that destroyed competition, but at first there was no effective means of enforcing it. And even now, in spite of subsequent antitrust laws and better enforcement provisions, there are many who believe that much more must be done to control big business.* The economic program of the Populist Party (formed in 1892) should be studied, and it is interesting to note that although the Party went out of existence many of its ideas have been adopted. Recently there has been a revival of "Populism" as evidenced by the number of people hoping to be nominated for the Presidency in 1972 who identified themselves with populist ideas.

*One should not overlook the fact that many large corporations have developed a "social conscience" and give vast sums to support education, charitable organizations and other beneficial institutions.

DISCUSSION QUESTIONS

1. Discuss the reasons why an "age of big business" developed in the U.S. after the Civil War.
   - **Favorable government attitude toward business; business concentration; small vs. large-scale businesses; tariffs; land grants; railroad subsidies; National Banking Act.**
   (a) Explain and illustrate ways in which big business can be beneficial to the consumer.
      - **Economies of scale; mass production; technological progress.**
   (b) Explain and illustrate ways in which big business can harm the consumer.
      - **Monopolistic practices; elimination of small producers.**

2. Americans have traditionally opposed monopolies.
   (a) Distinguish between monopoly and oligopoly, monopolistic competition and pure competition, administered prices and prices determined in a free market.
   (b) Explain how the following can encourage the development of a monopoly: a patent, a scarce supply of natural or raw materials, the need for great quantities of capital to start an enterprise.
      - **Natural monopolies; public utilities; patents and copyrights; legal monopolies.**

3. How do business firms grow and expand?
   - **Internal growth through reinvestment of profits; horizontal and vertical combinations; mergers; conglomerates.**
   (a) Why do expanding firms often combine with other firms?
      - **Economies of scale; price fixing; community of interest; monopoly practices.**
   (b) What forms do business combinations take?
      - **Mergers, pools, trusts, holding companies, cartels, gentlemen's agreements, interlocking directorates, trade associations.**
   (c) Why did the regulation of big business become a concern of the Federal government?
      - **Failure of state regulation; interstate commerce power; monopolistic abuses.**

4. Discuss the principal informal and formal methods of forming business combinations.
   (a) Describe some of the problems sometimes created by the concentration of business and industry.
      - **Higher prices; poor quality goods and services; destruction of competition; excessive influence over government.**
   (b) How does big labor and big government serve as "countervailing power" to big business?
      - **Large unions and government help to minimize the dangers of big business.**

5. What factors influence the prices that monopolists charge?
   - **Production costs; limits on supply (causing price to rise); elasticity of demand; potential competition; possibility of substitute products; fear of government intervention.**

6. Explain how the organization and growth of the Standard Oil Trust or the United States Steel Corporation illustrates both the advantages and disadvantages of business concentration.

- **Economies of scale; expansion of market; research and development; effects on competition.**

7. "Bigness in business can be a blessing and a curse." To what extent do you agree or disagree with this statement?
   - **Economies of scale vs. possible abuses of concentrated industries.**

8. What are some ways in which the development of big business in the United States since the Civil War affected each of the following?
   (a) Labor.
   - **Automation; complex division of labor; rise of industrial unions; effect on real wages.**

   (b) The farmer.
   - **Mechanization of farm production; agricultural revolution.**

   (c) City life.
   - **Urbanization; improvements in transportation and communication.**

   (d) Education.
   Increased specialization; need for highly trained manpower.

   (e) United States foreign policy.
   - **Expansion of export markets; foreign investments; supranational firms.**

9. Explain how the Granger Movement was transformed from a social to a farmer's reform movement.
   - **Economic complaints of farmers; industry vs. agriculture.**

10. Why do large industrial corporations engage in R and D (research and development)?
    - **Technological advance; production costs; search for new markets; consumer demand.**

    (a) How might R and D affect the profits of a company?
    - **Reduce production costs; create new markets; gain competitive advantages.**

    (b) How might R and D affect our standard of living?
    - **New and better products; possibly lower costs; stimulate economic growth.**

11. Why was the Sherman Act passed?
    - **Monopolies; weaknesses of state regulation; growth of big business.**

    (a) State the provisions of the Sherman Act.
    (b) How did these provisions and the procedures for enforcement differ from the Interstate Commerce Act?
    - **ICC as regulatory agency; role of Anti-Trust Division of Justice Dept.; FTC; views and policies of various presidents toward antitrust.**

12. In the 1860's there was great enthusiasm on the part of the public for the new railroads. Twenty years later there arose a great clamor for their regulation.
    (a) Why was enthusiasm for the railroads greatest west of the Mississippi?
    - **Importance of transportation and communication in economic development; infrastructure and social capital; production costs.**

    (b) How did the Federal government aid railroad construction?
    - **Government's role in promoting economic development; subsidies; land grants.***

    (c) Describe the abuses that led to the clamor for railroad regulation.
    - **Pooling; rebates; poor service; charging more for short hauls than for long hauls; weaknesses of state regulation.†**

    (d) Why did the farmers hail the passage of the Interstate Commerce Act of 1887 as a significant victory?**

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*For two sides of the land grant question, see Gerald D. Nash, Editor, *Issues in American Economic History*, 2nd edition (Lexington, Mass.: D. C. Heath, Inc., 1972), pp. 286-292.

†Many texts grossly simplify the railroad rate situation. For a brief, but very scholarly exception, see Robert Higgs, *The Transformation of the American Economy, 1865-1914* (New York: John Wiley & Sons, Inc., 1971), pp. 87-90.

**For a good account of the farmer's complaints, and an objective evaluation of those complaints, see Higgs, *op. cit.*, Chapter IV. Note, also, that the railroad industry itself sponsored legislation that would give the ICC new powers to reduce price discrimination, although this came after a period of price cutting. See Harvey C. Bunke, *A Primer on American Economic History* (New York: Random House, 1969), p. 124.

ACTIVITIES

1. *Class Discussion:* Play the sound recording, *Industrial Growth: 1865-1900* (Great Men and Great Issues) to motivate the informal group discussion to follow on this topic: American Business Leaders: Robber Barons or Industrial Statesmen? The sound recording deals with Andrew Carnegie, John D. Rockefeller, Samuel Gompers, Eugene V. Debs, Ignatius Donnelly, and Oliver H. Kelley. Other discussions that could be motivated by this recording might be: "The Rise of American Organized Labor" and "The Agrarian Crusade."
2. *Sociodrama:* Organize a Senatorial Investigating Committee to inquire into the activities of one of the "robber barons" of the post-Civil War period. Witnesses can be summoned, and a report drawn up after the hearing for presentation to the class for discussion.

3. *Student Reports:* Ask students to engage in library research and report on one of the following topics:
   John D. Rockefeller and the Standard Oil Trust
   The House of Morgan
   Andrew Carnegie and the Steel Industry
   Andrew Carnegie, Philanthropist
   Contributions of Immigrants to Economic Life
   Builders of the Transcontinental Railroads.
4. *Cartoon:* Draw a cartoon or poster advocating regulation of trusts in the public interest.
5. *Graph:* Prepare a graph indicating the increase (or decrease) of railroad mileage by decades from 1870 to 1970. For data consult the *Statistical Abstract of the United States.*
6. *Floor Talk:* Ask a bright student to prepare a floor talk on third parties in American history. Ask him to include why they arose, the issues they faced, their strengths and weaknesses, and their ultimate fate.
7. *Student Reports:* Ask your students to engage in library research and report orally to the class on the following topics:
   Civil Service Reform
   Political Scandal and Corruption During Grant's Administration
   The Rise of the Granger Movement
   Battle for the Control of the Erie Railroad (1868)
   The New South
   The Evils of Child Labor
8. *Cartoon:* Draw a cartoon portraying some aspect or aspects of the farmers' grievances against the railroads during the 1870's and 1880's.
9. *Editorial:* As the editor of a monthly labor journal write an editorial praising the Sherman Anti-Trust Act of 1890, but also pointing out some of its weaknesses.
10. *Simulation:* Convert the class into a meeting of the local Grange in the early 1880's discussing a rise in railroad rates. Let one student present a talk on the abuses practiced by the railroads at the farmers' expense, another proposals to regulate the railroads by state action, and a third advocating federal regulation. After discussing the issues, have the Grange draft a resolution proposing a solution to the problem.
11. *Time Line:* Ask the students to draw a time line indicating the steps in railroad regulation that culminated in the Interstate Commerce Act of 1887. The time line might include Munn versus Illinois, the Granger Laws, Wabash Railroad versus Illinois, and the Interstate Commerce Act.
12. *Field Trip:* Plan a field trip to a large industrial plant or department store in your community to provide firsthand information about the nature of business under a free enterprise system. Depending upon the nature of the enterprise, the students can study and report on one or more of the following: the processes involved (mass production, standardization, scientific management, automation, etc.); the role of management; and research and development. A class discussion on the following day is an excellent follow-up idea.
13. *Filmstrips:* Show selected reels of *Big Business and Labor (1870-1917),* a series of 15 "critical thinking filmstrips," produced by Modern Learning Aids.
14. *Game:* "C & O and B & O" (Didactic Systems). This game simulates railroad competition by having the students assume roles of men operating the Chesapeake/Ohio and Baltimore/Ohio Railroads. Level: Junior and Senior High School. Playing time: 2-8 hours. Number of players: 2-6.
15. *Role-Playing:* To illustrate the combination movement of the late 19th century, organize an imaginary bicycle manufacturing corporation in class. (Draw up a charter; issue stock; hold a stockholders' meeting; choose directors and officers). During the stockholders' meeting, suggest the creation of a holding company to unite similar bicycle manufacturing corporations that students have organized in your other classes. The discussion should bring out the advantages and disadvantages of this, and other, kinds of combinations.
16. *Motion Picture:* To evaluate the effects of big business on our competitive free enterprise market system, show *Big Enterprise in the Competitive System* (10 minutes; Encyclopaedia Britannica).
17. *Motion Picture:* Show *Growth of Big Business in America (1865-1900)* (16 minutes; Coronet) to depict the growth from small beginnings to big business in railroad, steel, and oil industries in the United States, and, why, as a result of the development of large-scale businesses in the United States in this period, 1865-1900, Congress passed antitrust laws, beginning with the Sherman Act.
18. *Motion Picture:* Show *What Makes Us Tick?* (12 minutes; Modern Talking Picture Service) to explain through a visit to the New York Stock Exchange how securities are purchased and sold and how a growing company raises needed capital funds.

TOPIC 12

The Reforms of Theodore Roosevelt

Economic Facts, Concepts, Principles or Problems

Trust busting
Conservation and environmental pollution
Food and drug legislation
Meat Inspection Act

IT is probable that most people today are concerned about pollution and the **conservation of natural resources.** Many teachers are finding that their students are deeply interested in environmental problems and they are capitalizing upon this interest. Almost daily, there are reports in newspapers or on newscasts of water pollution damage (such as oil spills or mercury contamination) or of the problem of dirty air. The following table dramatically illustrates how serious the air pollution problem can become.

Death Toll from Thermal Inversions*

Date	Place	Deaths
1930	Meuse Valley, Belgium	63
1948	Donora, Pennsylvania	26
1952	London, England	4,000
1953	New York, New York	200
1956	London, England	1,000
1962	London, England	300
1963	New York, New York	400
1966	New York, New York	80

Pollution is part of the general problem of conservation, and conservation can be studied in relation to the policies of President Theodore Roosevelt. Although others before him had been concerned about the fact that we were wasting our natural resources in a dangerous fashion, Roosevelt was more inclined to take firm action. Some students might be interested in studying Roosevelt's life to see how and why he became interested in this problem.

The concept of **scarcity,** which is so basic to the study of economics, is clearly applicable to the topic of conservation. Here we are often dealing with *nonrenewable resources.* (In technical terms, the supply is **inelastic**—it cannot be increased. The supply curve is a vertical line.) The demand for such things as water and revenue-producing land is increasing, but nature has given us a fixed supply. Note what happens to the price of a given piece of land when there is intense competition for it. A lot that might have had a market value of a few hundred dollars when it was being used for agriculture may be worth many thousands of dollars when the area becomes urbanized and that land is wanted by home-builders, large retail chains or manufacturers. Examples should be easy to find in almost any community.

Roosevelt told Congress in 1901, "The forest and water problems are perhaps the most vital internal problems of the United States." He held a Conservation Conference at the White House, attended by Cabinet members, judges, Congressmen, and governors. A National Conservation Commission set up under the chairmanship of Gifford Pinchot made a systematic study of mineral, water, forest and soil resources. Roosevelt set aside over 148 million acres of forest lands and 80 million acres of mineral land. About 1.5 million acres of water-power sites were withdrawn from public sale so that they could be conserved for the future.

The conservation topic can be broken down into water, soil, forest and grass, mineral and wildlife conservation. Pollution is often divided into air, water, solid waste and noise pollution for purposes of study and analysis. Among the economic factors to be considered are the increasing demands for our resources,* the costs of pollution damage, natural resources as productive inputs, causes of waste and inefficiency in resource utilization, and various proposals for coping with the problem.† Among the value questions to be discussed are these:

To what extent should government take action to deal with the problems?

To what extent should business, the taxpayer and the consumer bear the responsibilities and the costs of controlling pollution?

To what extent should state and local governments assume responsibility?

How much of the conservation and pollution problems should be solved by the free market system?

The conditions existing in Roosevelt's day can be compared

*Deaths occurring daily in urban areas as a result of continuing air pollution are not included—only those deaths "in excess of normal." The deaths are for human beings only. In the Donora episode, 800 animals were also killed by the polluted air.

*For example, total water use rose from 40 billion gallons a day in 1900 to over 411 billion gallons in 1970, and is expected to reach 494 billion gallons by 1980.

†See Harold Wolozin, *The Economics of Pollution.* New York: The Joint Council on Economic Education, 1970. (This 18-page pamphlet, with accompanying teaching suggestions by Patricia R. Reilly, is available from the Joint Council for $1.00.) Also see Topic 21 of this manual.

with conditions today; and his policies can be compared or contrasted with current policies and proposals.

Roosevelt was also concerned about **monopolistic practices.** Thus, the problem discussed in Topic 11 can be carried over into Topic 12. Roosevelt was not opposed to big business *per se,* but attempted to prevent huge corporations from abusing their power. The Bureau of Corporations was set up to investigate and report on the actions of large firms. The Department of Commerce and Labor was established, and further controls were placed upon the railroads to see that everyone paid the same rates. Roosevelt's antitrust policies and actions can be evaluated and compared with those of more recent administrations.

The **consumer** was not forgotten either. Thanks to Upton Sinclair's novel *The Jungle* (1906), which described abominable conditions in meat-packing plants, and the discovery by a government physician that harmful substances were being put in certain drugs, medicines and canned goods, legislation was enacted to require government inspection of all meat sold in interstate commerce and that the ingredients of food and drug products be listed on labels. Consumer protection also remains a controversial issue. To what extent does the consumer really control the amount, kind and quality of goods and services produced in our economy? How far should government go in protecting the consumer? The consumer's role in our economy can be examined in detail at this point.

The period in U.S. history we are now considering also offers opportunities to relate economics to foreign affairs. In Britain's dispute with Venezuela over the boundary line of British Guiana, the discovery of gold in the contested area caused Britain to shift the line which she had been willing to accept as the legal boundary. In 1895, when President Cleveland's Secretary of State, Richard Olney, warned Britain that the U.S. would consider British pressure on Venezuela to be a violation of the Monroe Doctrine, he seemed to be using "economic muscle" when he stated that our "infinite resources" helped to make us "master of the situation and practically invulnerable as against any or all other powers." Roosevelt, too, did not hesitate to flaunt the economic and military might of the United States. In 1902 the United States prevented Britain and Germany from using force to collect debts from Venezuela. In 1904, the Dominican Republic found itself burdened by debts to European powers. The United States refused a Belgian proposal that we join in seizing all customhouses (customhouse receipts had been pledged to various creditors with provision that in the event of default the creditors could demand control of the customhouses) and that Santo Domingo be governed by an international commission. When American companies were given preferred treatment over other creditors in debt repayment, Europeans protested and another armed intervention seemed imminent. To forestall this, Roosevelt proclaimed his so-called Roosevelt Corollary to the Monroe Doctrine, asserting that the U.S. must "exercise . . . an international police power" to prevent "flagrant cases of wrongdoing. . . ." It was the moral obligation of the U.S. to force the "wretched republics" to pay their debts, and in 1905 Santo Domingo agreed to have the United States administer the customs and manage the debt payments.

It is interesting to note the way in which U.S. involvement in the world economy has developed over the years. Nations still have problems with foreign debts, and many of these problems affect the United States. How such problems are handled today as contrasted with Roosevelt's administration might make a fascinating subject for study.

DISCUSSION QUESTIONS

1. Discuss the factors in the United States that led to the disappearance of the frontier in 1890.
   - **Land as a factor of production; law of diminishing returns; frontier.**
   (a) Discuss three important results of the passing of the frontier.
      - **End of "free land"; need for conservation; immigrants concentrating in cities.**
   (b) What is meant by the statement that there are still "frontiers" in American life?
      - **Innovation; social reform; quality of life.**

2. Explain how conservation of natural resources is related to (a) farming, (b) mining, (c) recreation.
   - **Natural resources as factors of production; supply of land; extractive industries; demand for natural resources; ecology; pollution.**

3. How do natural and human resources contribute to a nation's strength?
   - **Resources and productive capabilities.**
   (a) Differentiate between natural and human resources.
   (b) What kind of natural and human resources does the U.S. need (*1*) as a world power and (*2*) as a nation with rising living standards?
      - **Renewable and nonrenewable resources; conservation; economic growth.**
   (c) Why is the protection of our natural environment everyone's responsibility?

4. How did each of the following affect the conservation of natural resources? (a) Reclamation Act (Newlands Act) of 1902; (b) Governors' Conference of 1908; (c) Teapot Dome Scandal; (d) Tennessee Valley Authority; (e) Civilian Conservation Corps.

5. What role did Gifford Pinchot and Theodore Roosevelt play in the conservation movement?
   (a) What aspects of the protection of our natural environment were of particular interest to Theodore Roosevelt's generation?
      - **Mineral lands; forests; water; wildlife conservation.**
   (b) What kinds of environmental problems are of

special interest to your generation in the 1970's? Why?

- **Pollution; ecology.**

(c) In your opinion, which of the nonrenewable reresources are most vital to the life-support systems of "Spaceship Earth?" Defend your point of view.

(d) In 1901, Theodore Roosevelt told Congress: "The forest and water problems are perhaps the most vital internal problems of the United States." If he were alive today, what other environmental problems might he include in a message to Congress? Why?

(e) Compare the conservation issues of the early 1900's with the environmental concerns of the 1970's, and the measures taken by Roosevelt and Taft with those undertaken by President Lyndon B. Johnson and President Richard Nixon.

- **Supply and demand of natural resources; effects of growing population and industry; costs of pollution; growth of government involvement in economic problems.**

6. Why is the heedless destruction of forests called "a crime against posterity"?
   - **Supply of natural resources; demand for resources in future; recycling.**
7. Discuss the reasons why the conservation of natural resources is more important today than it was 100 years ago.
   - **Supply and demand factors; economic growth; population growth.**

   (a) Discuss ways in which the Federal or state governments have promoted conservation.

   (b) How can you as an individual promote wiser use of natural resources?

   - **Recycling; efficiency in resource use; control of economic waste.**
8. Explain what Theodore Roosevelt meant by a "Square Deal" for business and labor.
   - **Government role in labor disputes.**
9. To what extent did Taft continue the policies of Theodore Roosevelt?
   - **Antitrust policy; labor relations.**
10. Why did Theodore Roosevelt intervene in the Anthracite Coal Strike of 1902?
    - **Effects of labor disputes on the general public; government's role.**

    (a) On what grounds did Roosevelt intervene?

    (b) What was the outcome of the conflict?
11. Why was it difficult for the government to control business combinations under the Sherman Anti-Trust Act?
    - **Vague language of the Act; various forms of business concentration; varying interpretations of the Act.**

    (a) How did Roosevelt distinguish between "good" and "bad" trusts?

    (b) Did Roosevelt really earn the title of "trust buster"?

    (c) Today, would the Supreme Court break up a combination of railroads such as that which was involved in the Northern Securities Case? Defend your answer.
12. Who were the "muckrakers"?
    - **Social reforms; economic reforms; consumerism.**

    (a) How successful were the muckrakers in bringing about worthwhile reform?

    (b) Do we have "muckrakers" in the 1970's? If so, name some of them and tell what reforms they are seeking.

    - **Consumer protection; redistribution of income; poverty; welfare; pollution.**
13. Explain the part that Upton Sinclair's novel *The Jungle* played in the passage of the Meat Inspection Act of 1906. What were the provisions of that Act?
    - **Government interference with the free market; consumer protection.**
14. Discuss the reasons for the passage of the Pure Food and Drug Act of 1906. What were its provisions? What were its strengths and weaknesses?
15. How did each of the following change the interpretation of the Monroe Doctrine? What role did economics play in each? (a) Venezuela Boundary Dispute of 1895; (b) Venezuela Debt Default Difficulties of 1902; (c) Santo Domingo Debt Default of 1904.
    - **Economic imperialism; foreign investments; bonds; dollar diplomacy.**
16. Discuss the economic background of United States policies toward Latin American countries before World War II.

    (a) Explain the attitude of the Latin American countries toward the Monroe Doctrine in the 19th century. Why did this attitude change during the first three decades of the 20th century?

    (b) Why did the U.S. want to build the Panama Canal and control the Canal Zone?

    - **Relationship between economic interests and foreign affairs.**

ACTIVITIES

1. *Bulletin Board Display:* Ask your students to prepare a bulletin board display entitled "The Fight for a Good Environment: Yesterday and Today." The display might consist of pictures, drawings, charts, diagrams, thumbnail biographies of outstanding leaders, and script pointing out targets of environmentalists and suggesting solutions to environmental problems.
2. *Book Report:* Ask a bright student interested in environmental problems to read and report on *Only One Earth* by Barbara Ward and René Dubos (New York:

Norton and Company, 1972), a report prepared for the United Nations Conference on the Human Environment at Stockholm in June 1972.

3. *Book Reports:* Students may be willing to read, review and report orally in class on books written by "muckrakers." A list follows:
   L. Steffens—*The Shame of the Cities*
   U. Sinclair—*The Jungle*
   T. Lawson—*Frenzied Finance*
   I. Tarbell—*History of the Standard Oil Company*
   F. Knox—*The Octopus*
   F. Knox—*The Pit*
4. *Glossary:* Prepare an environmental glossary of ecological and conservation terms such as salvage, recycling, efficient extraction, pollution, bird sanctuary, wetlands, migratory birds, national forests, etc.
5. *Cartoons:* Ask your students to draw cartoons bearing titles such as the following:
   Theodore Roosevelt—Trustbuster
   Theodore Roosevelt—Conservationist
   Theodore Roosevelt—Canal Builder
6. *Bulletin Board Display:* Ask your students to prepare a bulletin board display entitled *Muckraking—Then and Now*. It might consist of pictures, charts and script pointing out the targets of the reformers and suggesting solutions.
7. *Panel Discussion:* Ask the class to imagine itself a reform society during the Roosevelt Era discussing the need for urban reforms. Ask selected students to report on housing, disease, crime and the lack of adequate medical and recreational facilities, and to report on reforms suggested by Progressives.
8. *Senatorial Investigation:* Let the class imagine that it is the U.S. Senate at the turn of the century. Let the "Senate" appoint committees to investigate conditions in the stockyards, slaughter houses and meat packing plants, and food and drug abuses. After each committee has heard witnesses and made recommendations, ask the "Senate" to draw up remedial legislation.
9. *Sound Filmstrip:* Show *Muckrakers and Reformers* (Multi-Media Productions) to teach the concerns of the Progressive Era.
10. *Sound Filmstrip:* Show *Theodore Roosevelt 1858-1919* (1 color filmstrip and 1 LP record—Electronic History, Inc.) for a vivid account of the man and his times.
11. *Research Project:* Ask an interested student to investigate the food and drug reform movement resulting in the Meat Inspection Act of 1906 and the Pure Food and Drugs Act of 1906. One "contemporary" source is Mark Sullivan's *Our Times*, II, pp. 471-552.
12. *Camera Hunt:* Amateur photographers in class may enjoy a camera hunt of good environmental practices, or the opposite, as part of a bulletin board display on the topic.
13. *Recording:* Play "Progressive Reformers: 1900-1920" to create the atmosphere for the Muckraking Era and the economic, social, and political reforms that emerged from it (2 LPs). Source: Great Men and Great Issues Series.
14. *Game:* "Environmental Game" (Simulations Systems Program). Built around a series of negotiation sessions, Environmental Game treats problems of air, water, land and visual pollution and the trade-offs required between personal/corporate goal satisfaction and environmental quality. Level: Junior and Senior High School. Playing time: 2 hours. Number of players: 2-32.
15. *Motion Picture:* Show *Conservation of Natural Resources* (10 minutes; Encyclopaedia Britannica) to teach the need for conservation measures.
16. *Filmstrip:* For an overview of the reform movement of the late 19th and early 20th centuries, show *Political and Social Reform, 1870-1916* (SVE).
17. *Sociodrama:* Simulate a press conference with Theodore Roosevelt during the Governors' Conference on Conservation. Cast a good student in the role of President Roosevelt and assign the role of reporters to several other students. Follow the press conference with class discussion.

18 *Book Report:* Ask a good student to present a brief oral report on the personality and accomplishments of Theodore Roosevelt as reported in Pringle's *Theodore Roosevelt: A Biography*.

TOPIC 13

Wilson and the New Freedom

Economic Facts, Concepts, Principles or Problems

Clayton and FTC Acts
Federal Reserve System
Income tax

SEVERAL major economic issues should receive considerable attention in any study of Woodrow Wilson's administration. If the class has already been introduced to taxation (as in Topic 2), banking (Topics 6 and 8), labor problems (Topic 10), and big business concentration (Topics 11 and 12), a unit on Wilson's domestic policies will not only provide reinforcement but enable the teacher to delve more deeply into the economic concepts related to these topics.

On the matter of business concentration, Wilson stated: "We must see to it that the business of the United States is set absolutely free of every feature of monopoly." Roosevelt and Taft had used the Sherman Act of 1890 to attack large business combinations, but the wording of the law was vague and ways to evade it were found. The Sherman Act did not say exactly which business practices were legal and which were not. Decisions on the law's intent were left to the courts which were often favorable toward big business. The Clayton Antitrust Act, passed in October of 1914, listed practices that would be considered illegal—**price discrimination** tending to create monopoly, **tying contracts, interlocking directorates,** and the acquisition of stockholdings that tend to reduce competition. The Federal Trade Commission was established to act as a "watch dog" over business. The FTC was empowered to demand annual reports from corporations, investigate their activities, publish reports on their findings, and to issue "cease and desist" orders to prevent unfair business practices. The development of antitrust policy and enforcement could be a good topic for research. What problems do we have today with business concentration? Are the existing laws and agencies doing an adequate job? Today, should we adhere to Roosevelt's belief that big business concentrations are not harmful as long as they are under Federal regulation, or to Wilson's idea that government should break up monopolistic concentrations?

In discussing the latter question it is imperative that the students understand the concept of **economies of scale** —the fact that in some cases unit costs of production *decrease* as firms become larger.* Of course, there are also **diseconomies of scale** when a firm exceeds its optimum size and unit costs then begin to rise.* Another factor to consider before making judgments about a "monopolistic" firm is the **elasticity of demand** for its output. A monopoly in food, essential drugs, or other items which are absolute necessities, if far more dangerous than one in luxury goods. The demand for essential goods is generally **inelastic**—people will have to buy them even if prices soar. A monopolist producing essential goods can reap huge profits at the public's expense. A monopolist producing luxuries, however, may find that his sales drop drastically if he raises prices too high. (In technical terms, the demand for his product is **elastic**—the percentage drop in sales will be greater than the percentage increase in price and he will actually lose money by raising prices.) In assessing the extent to which a monopoly is dangerous, economists will also consider **cross-elasticity.** This refers to the change in sales of product "X" when the price of product "Y" has changed. For example, if a monopolist gets control of all butter in a given market and raises the price of butter, we can expect the sales of margarine to increase because many buyers will accept this as a reasonable substitute for butter. This being the case, the butter monopoly is less harmful than it would be if there were no substitute product. It is up to the teacher to decide whether or not a given class can grasp these concepts, but in any event it is important that careful analysis rather than snap judgments be made in examining such problems.

Wilson saw the need for banking reform. The Pujo Committee (a subcommittee of the House Committee on Banking and Currency) had been set up in 1912 to examine charges that a "money trust" existed in the U.S. It found that the concentration of money and credit was indeed increasing, and its report strengthened the incoming Wilson administration in its program of currency and banking reform. The National Banking system (see Topic 8) was not a total failure, but it had serious weaknesses. Reserves were not held by a central bank (there was no provision for a central bank in the National Banking Act of 1863), and the law permitted banks to deposit three-fifths of their reserves

*There are several reasons why a firm may become more efficient as it increases in size, and hence have lower unit costs and be able to charge lower prices. Greater specialization is often possible in the larger firm; it may be able to afford better equipment and engage in research; and it may enjoy market advantages, such as getting discounts because it can buy in large quantities.

*One possible reason is that a firm can become too large to be managed efficiently.

in other banks.* A high average level of reserves was required, unnecessarily restricting the volume of credit for country banks. There was no means of creating reserves in times of financial panic nor of helping banks in distress. Numerous bank failures and suspensions during the financial crises of 1873, 1884, 1893, 1903 and 1907 clearly illustrated the problem.

A brief review of previous events in American banking history would be helpful at this point, and the students should be reminded of the first and second United States Banks. If earlier lessons dealt with the role of central banks in general, it is important here to go into their functions in greater detail. In 1913, the two major parties agreed that some sort of central bank was needed; the debate was over the form it should take. The Federal Reserve Act of 1914 provided for 12 central banks instead of one. On each bank's nine-man board of directors there must be persons who represent borrowers (such as businessmen, farmers or other nonbanking occupations), and the general public, as well as bankers. The structure of the Federal Reserve System should be examined, with the reasons for each aspect being explained. Changes that have taken place in the Fed's powers and functions over the years can be traced, with explanations for each major change being sought by the class. Of course, the major instruments of control (reserve requirements, the discount rate and open market operations) should be clearly understood, and the use of **monetary policy** as a means of stabilizing the economy (preventing inflation on the one hand or recession on the other) ought to be clear to every American. The nature of our **money supply** (stressing the importance of **demand deposits** in commercial banks), how and why the money supply changes over time, and the Fed's powers in controlling the money supply should be treated in some detail. The strengths and weaknesses of the Federal Reserve system might be set forth, although this topic could be more meaningful during the later study of the Depression of the 1930's.

Taxation is another key issue during this period. An **income tax** had been levied during the Civil War, but later the Supreme Court decided that income taxes were unconstitutional. The students might be amazed to find that it was the common people and their spokesmen who demanded the passage of an income tax law. The 16th Amendment, permitting Congress to pass such a law, was ratified in 1913. A tax of 1 percent on incomes between $3000 ($4000 for married men) and $20,000 was then levied. Above $20,000, the rates rose until those earning over $500,000 paid 7 percent. These rates can be compared with those of today, and the class might try to decide whether our income tax has become more or less progressive over the years. (Consideration should also be given to the extent to which we expect government to perform services for us today as compared with the past, the rising cost of government services, and other factors which help to explain government's expanding role in the economy.) To turn to another kind of tax, the Underwood Tariff of 1913 placed iron, steel, raw wool, sugar and some other agricultural goods on the free list and reduced duties on others. (Rates on some products were raised, however, and our tariffs remained highly protective.)

Finally, labor was the object of sympathetic attention from the Wilson administration. The Clayton Act specified that "the labor of a human being is not a commodity or article of commerce" and that "nothing contained in the antitrust laws shall be construed to forbid the existence and operation of labor . . . organizations . . . " Unions were not to be construed as "illegal combinations in restraint of trade" and the injunction was not to be used in labor disputes unless the court decided that it was necessary to prevent irreparable injury to property. Strikes, peaceful picketing and boycotts were to be legal under Federal jurisdiction. This "Magna Carta" of labor, however, was greatly weakened by interpretations which the courts gave to the Act. In evaluating Wilson's reforms the class should consider their effectiveness as well as their "rightness."

*Reserves tended to flow to New York, and this concentration of reserves in New York encouraged the overexpansion of call loans to the securities market. Consult standard texts in American economic history for further details on the national banking system.

DISCUSSION QUESTIONS

1. What were the major issues in the election of 1912? Why was each important?
   - **Business concentration; money and banking; tariffs; labor reforms; equality of opportunity; free enterprise; economic individualism.**
   (a) What were the outcomes of this election? What did they imply for the economy?
   (b) What did Wilson mean by the "New Freedom"?
2. "The Sherman Antitrust Act of 1890, designed to curb industrial monopolies, was used at first against labor unions with drastic results for the unions." Show how this applies to: (a) the Pullman Strike; and (b) the Danbury Hatters' Case.
   - **Injunctions; primary and secondary boycotts; government and labor.**
3. A new judicial concept—the "rule of reason"—evolved in the Standard Oil and American Tobacco Company cases. What was the "rule of reason"? How was it similar to Theodore Roosevelt's classification of helpful and injurious combinations?
4. What was the purpose of the Clayton Antitrust Act? Of the Federal Trade Commission?
   (a) How did the Clayton Act and the FTC represent attempts to strengthen the Sherman Act?
   (b) Why is the FTC often called an "umpire" for

business? What are its powers? How effective has it been?

5. Discuss changes made in the tariff by the Wilson Administration. How do the two major parties stand today on the tariff? With which party do you agree? Why?
   - **Free trade vs. protectionism; arguments for and against tariffs; comparative advantage.**
6. Why was the Federal Reserve System established in 1913?
   - **Money and banking; central banks; monetary policy; business cycle.**
   (a) Who owns the Federal Reserve Banks? Explain the structure of the System.
   (b) What privileges does a commercial bank enjoy as a member of the System? What are its obligations?
7. What distinguishes a central bank from regular commercial banks?
   (a) In what way was the Second U.S. Bank (1816-36) similar to a central bank?
   (b) Why are the 12 Federal Reserve Banks considered central banks? Why do we have 12 central banks when even the huge Soviet Union has only one (the Gosbank)?
8. How does the Federal Reserve System serve the economy?
   - **Monetary policy; centralized reserves; elastic system of money and credit; clearing house function; role in foreign exchange; Federal Reserve Notes.**
   (a) What is meant by the "discount rate"? What is it supposed to accomplish?
   (b) What are "reserve requirements"? How do they work? Why are they used?
   (c) What is meant by "open market operations"? How do they function? Why are they used?
   - **Business cycle; money supply; inflation and deflation.**
9. Today we "gripe" about the income tax, but many average citizens were fighting for its adoption around the turn of the century. Why?
   - **Theories of fairness in taxation; progressive, proportional, regressive taxes.**
   (a) What taxes do you and your family pay? Are they fair? Explain your answer.
   (b) What do you get in return from your local, state and Federal governments?
   - **Government services (schools, roads, police protection, fire protection, etc.).**
10. Taxes can be classified in several different ways.
   (a) Distinguish between an income tax, an excise tax and a property tax.
   (b) Distinguish between direct and indirect taxes.
   (c) What is meant by the "incidence" of a tax? What is meant by "shifting the incidence"?
   (d) Describe a regressive, a proportional and a progressive tax. Give examples of each.
   (e) What type of tax do you prefer as the basic source of government revenue? Explain your choice.
11. In 1914 the Clayton Antitrust Act was hailed by Samuel Gompers as "labor's Magna Carta."
   (a) What were the major labor provisions of the Act?
   (b) What did Gompers mean? Was he correct in calling the Act labor's Magna Carta?
12. During the Progressive Era the American "democratic way of life" came to mean more than political democracy. Give examples to illustrate this statement.
13. Compare Woodrow Wilson's "New Freedom" with Theodore Roosevelt's "Square Deal" and show both similarities and differences.
14. A common form of business combination in recent years has been the *conglomerate** merger.
   (a) How does the conglomerate differ from the typical merger during Wilson's time?
   (b) Why do business combinations continue today despite antitrust and regulatory laws?
15. What do economists mean by "economies of scale"? Discuss some "diseconomies of scale" that occur when a firm exceeds its optimum size.
16. Why must elasticity of demand for a firm's products be considered in determining whether that firm is a dangerous monopoly or not?

*A conglomerate is a merger of firms in unrelated fields. For example, a food processing firm once merged with a company which manufactured women's undergarments.

ACTIVITIES

1. *Headlines:* To review Wilson's policies toward unions, ask students to interpret the following headlines:
   WILSON APPOINTS FIRST SECRETARY OF LABOR
   GOMPERS HAILS CLAYTON ACT AS LABOR'S MAGNA CARTA
   RAILROAD BROTHERHOODS ENDORSE ADAMSON ACT
2. *Diagram:* Ask the students to illustrate the organization and functions of the Federal Reserve System diagrammatically.
3. *Chart:* Have the students make a chart stating the defects of the National Banking System and showing how the Federal Reserve System attempted to remedy each of these weaknesses.
4. *Role-Playing:* Ask a boy and a girl student to stage a mock interview of a young suffragette in 1912 with a Congressman with "male chauvinist" leanings.

5. *Cartoon:* Ask a student to draw a cartoon advocating the passage of the 19th Amendment such as would have been drawn in 1912.
6. *Debate:* Resolved: That all commercial banks in the United States be required to become members of the Federal Reserve System.
7. *Investigation:* Have the students investigate the local tax system. What are the chief sources of revenue? The chief expenditures? Are the citizens satisfied with taxes as they are? What substitute taxes or means of securing revenue do they propose? Would they accept a value-added tax in lieu of the property tax?
8. *Debate:* Resolved: That the Federal government should tax all inherited estates valued $500,000 or more at the rate of 75 percent.
9. *Cartoon:* Draw a cartoon on the women's rights movement before World War I portraying your version of "the new American woman."
10. *Diagram:* A student might prepare a chart or diagram illustrating how checks are cleared.
11. *Publications:* Write to the various Federal Reserve Banks for publications to add to the classroom library.
12. *Role-Playing:* Let a group of seven students simulate a meeting of the Board of Governors of the Federal Reserve System to discuss present business conditions and make recommendations for correcting any imbalance that might exist.
13. *Research Project:* A student may be asked to investigate the Bank of England or another European central bank. In the report, the operation of the European central bank might be compared with that of the Federal Reserve System, indicating features that they have in common and how the two systems differ.
14. *Map:* On an outline map, a student might use a colored marking pen to trace the boundaries of the 12 Federal Reserve Districts and print on the map the names of the cities in which the 12 Federal Reserve Banks are located.
15. *Game:* "Banking" (Science Research Associates). Banking involves the financial activities and decisions of commercial banks through simulation and role-playing. Level: Senior High School. Playing time: 2-5 hours. Players: Minimum 6.
16. *Game:* "Mr. Banker" (Federal Reserve Bank of Minneapolis). This simulation introduces the student to the money and credit system of our nation including the role in it of the Federal Reserve System (available by loan). Level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 6-40.
17. *Motion Picture:* To teach the purpose, organization and history of the Federal Reserve System, show *Federal Reserve System* (20 minutes; Encyclopaedia Britannica).
18. *Motion Picture:* To describe the purpose and functions of the Federal Reserve Banks, show *Money on the Move* (27 minutes; Federal Reserve Banks, on loan).
19. *Filmstrip: Woodrow Wilson:* Part I (Pictorial) presents an overview of Wilson's career.
20. *Sociodrama:* To review the issues in the election of 1912, stage an informal political rally on the eve of the election. Choose able students to campaign for William Howard Taft, Theodore Roosevelt and Woodrow Wilson. After formal presentation of the arguments invite rebuttals and questions from the class.
21. *Filmstrip:* Show *Banking and Monetary Control:* Series II (McGraw-Hill) to teach the emergence of modern, fractional reserve banking. The tools of monetary policy available to the Federal Reserve authorities—reserve requirements, rediscount rate, open market operations—are described. (Recommended for superior students.)
22. *Motion Picture:* Show *Money and Banking* (28 minutes; Sutherland Learning Associates) to describe how commercial banks operate in a market economy. The power of the Federal Reserve System to regulate the expansion and contraction of the money is explained.
23. *Filmstrip:* Show *Money and Banking* (World of Economics Series—McGraw-Hill) to explain the quantity theory of money and Federal Reserve monetary policies.
24. *Sound Filmstrip:* Show *Our Money System* (21 minutes; Guidance Associates) to describe the United States' banking system and to depict the powers of the Federal Reserve System to utilize monetary policy to counter inflation and recession.
25. *Motion Picture:* Show *Your Town* (15 minutes; American Bankers Association, distributed by local members of ABA) to describe the various banking services available and how these services affect the economy of the country.

TOPIC 14

World War I

Economic Facts, Concepts, Principles or Problems

U.S. as world supplier
Debtor-creditor positions of nations
National debt
Wartime controls

ALTHOUGH nationalism was a major factor in bringing on World War I, there were economic causes as well. As nations developed industries they began to compete for raw materials in such places as Africa. There were disputes over who should have the right to certain areas in that continent, and these disputes helped set the stage for war. Wilson asked Americans to be "impartial in thought as well as action," but the United States' economy was affected from the start. Prior to World War I the U.S. had been a **debtor nation.** (In 1914 the United States was a debtor in the amount of $3.7 billion.) Under normal circumstances it would have taken many more years to become a **creditor nation.** But the major industrial nations of Europe were at war, their factories were producing military hardware, and they needed vast new supplies of raw materials. American products were badly needed, and between 1914 and 1916 the value of our exports more than doubled while the value of goods that we imported from Europe declined. By 1919, the U.S. was no longer a debtor nation but was a creditor in the amount of $3.7 billion.

Both sides courted the United States, but Germany's submarine warfare and espionage activity swayed public opinion toward the Allies. By 1915 the U.S. had become the major supplier of ammunition and other war material to the Allies, and by 1917 the Allied governments had sold over $1.5 billion worth of bonds in America. Some cite this as evidence that the U.S. had a financial stake in an Allied victory. The United States declared war on Germany on April 6, 1917, and there is little doubt that President Wilson and most Americans regarded this as an act of righteousness rather than one motivated by pecuniary interests.

In any event, the country had had little experience in shifting from a peacetime to a wartime economy. During a war, the **public sector** of the economy (that is, government activity) suddenly takes on great importance. The free enterprise system can no longer be relied upon to direct resources where they are most needed. Factors of production (raw materials, labor and capital) must shift from the **private sector,** where they had been used to produce goods and services for private consumers and businesses, to the **public sector.** This is the case, at least, if the economy is producing at (or near) top capacity. If our farms, factories, mines, mills and workers are already fully and efficiently employed, then we can increase production of government goods (such as warplanes, tanks, army barracks, guns, bombs and submarines) only by reducing our output of nongovernment goods. Indeed, the **real cost** of the government goods will be the civilian goods (such as pleasure cars) that we sacrifice when we make the shift.

The economy is bound to be affected by a shift from peace to war. Some producers will not have to change much. The farmer producing food for soldiers need not alter his production methods. (He may, however, be faced with a greater demand and higher prices. Thus he may try to increase his output in various ways and may find it profitable to cultivate land that had previously been considered too poor to yield a profit.) The auto manufacturers, on the other hand, will have to "re-tool" to shift from producing pleasure cars to army tanks. This will involve a cost. As wartime production goes into high gear, workers will be receiving their wages but may find that there are fewer consumer goods upon which to spend their incomes. Thus, prices will rise because the demand for consumer goods will be as great as ever (perhaps greater) but the supply will be less. Now what will government do? It could increase taxes, which would reduce some of the consumer demand (because people would have less money to spend on consumer goods) and at the same time provide funds to finance the war.

If some resources had been lying idle before the war, it is theoretically possible for the nation to increase its total output without producing fewer consumer goods. That is, industry might continue to turn out the same amount of consumer items while formerly unemployed workers, idle factories and unused raw materials are now put to work producing guns, warships and the like. (In technical terms, the nation moves from a point *inside* its **production possibilities curve** to a point *on* the production possibilities curve.) Efforts can also be made to find new productive resources. During wartime, women who had not been part of the labor force entered factories and did many jobs which had normally been considered "man's work." Government may also promote research to find

new production techniques, develop synthetic materials, and search for additional sources of supply.

The various wars in which the United States has been involved have had different effects upon the economy. The all-out **economic mobilization** that was needed for World War II was not required for Vietnam, for example. About six months before our entry into World War I, the government began to plan for the possibility of our involvement. A Council of National Defense was set up to plan the manufacture of guns and ammunition, organize transportation facilities, and provide sufficient labor and raw material. A Shipping Board was established in 1916 to promote shipbuilding and regulate shipping. The Emergency Fleet Corporation of 1917 was provided with $50 million to construct new merchant vessels. The government built new shipyards and improved old ones, took over the operation of the railroads (in December of 1917), and assumed control over the telephone and telegraph systems in 1918.

Labor-management relations could no longer be left alone, and the War Labor Board was created to help prevent strikes. The Board would provide **mediation,** investigating disputes and suggesting terms of settlement. It handled 1500 disputes during the World War I period. Although nearly everyone agrees that in a wartime emergency we must give up some of our economic freedoms and accept government controls, there is always disagreement on the extent to which this is necessary and the means by which the controls should be implemented. This question might spark some interesting classroom debates.

Paying for the war was another problem. The rates of the income tax were raised, and an **excess profits tax** was imposed. (About one-third of the cost of the war was covered by taxes.) Excise taxes were placed on luxury items. This not only helped raise money but discouraged consumers from buying luxuries. The students should realize that taxes can be used to control consumption and redirect production in this fashion.

The remaining two-thirds of the cost was financed by government borrowing. Before World War I our **national debt** had been only $1 billion, but by the middle of 1919 it had soared to over $26 billion. Raising taxes is one way of obtaining funds to pay for a war; borrowing from the public by issuing bonds is another. (Be sure that students do not confuse the term **national debt** with the nation's debtor-creditor position in international affairs. The fact that the national debt in 1919 was $26 billion did *not* mean that the United States owed this amount to foreigners. For the most part, the government securities are purchased by Americans. Thus, the government is borrowing from its own people—the national debt is largely an **internal debt** in that it is owed by the United States government to Americans.)

There was a serious **inflation** during World War I, as prices rose by about 42 percent. During wartime, government must attract factors of production away from private enterprise. Thus, with a shortage of labor, wages (the price of labor) will rise unless they are fixed by government decree. Competing with government for workers, business must pay higher wages and must pass this cost on to the consumer in the form of higher prices. The same is happening with food, raw materials and capital goods. The inflation of World War I might be compared with that which accompanied the "escalation" of the Vietnam War. Did we learn any lessons from World War I that we could have applied in 1965? In what way were conditions similar? How did they differ? Many economists charge that President Johnson ought to have increased taxes when he decided to step up the war. Have subsequent events proved them to be right?

Finally, the economic policies adopted immediately after the War should be examined and evaluated. The United States raised its **tariffs,** making it difficult for other nations to sell their goods here, and yet this was perhaps the only way the Allies could have repaid their debt to the United States. The Allies insisted that Germany pay the full cost of the war, but Germany lacked the money and resources to do so. When the old Austria-Hungary empire was split into several nations, an area that had been economically united became divided. Goods could no longer flow freely, prices rose, factories that had been selling over a wide area were restricted to smaller markets, and nations began passing higher and higher tariffs. It is generally agreed that these actions helped to cause (or at least to aggravate) the Great Depression of the 1930's and to create the bitterness and hatred that led to World War II.

DISCUSSION QUESTIONS

1. How did World War I affect American export trade?
   (a) How did the Allied powers finance their purchases of foodstuffs and munitions before 1917? After 1917?
   - **International exchange; balance of trade and payments.**

   (b) To what extent did economic forces influence U.S. entry into World War I?
   - **War loans; international banking and credit; economic interests.**

2. How did World War I affect the American economy: (a) before U.S. entry; (b) during the period of American participation; (c) immediately after the war? Explain the changes, if any.
   - **Economic mobilization; inflation; government and the economy in wartime.**

3. Before the first World War (1914-18) the U.S. was both an underdeveloped and a debtor nation. Explain this statement. How did the War transform the U.S. from a debtor to a creditor nation?

- **Trade; foreign investment; balance of trade and payments.**

4. Explain how the United States Government used taxes and the sale of bonds to raise the billions of dollars needed for the war effort.

5. What is the national debt?
   - **Public borrowing; government bonds; public finance.**
   (a) Why is the public debt of the U.S. considered an "internal" debt?
   (b) How did World War I affect the size of our national debt?

6. How did World War I affect each of the following: (a) labor; (b) consumers; (c) industrialists; (d) farmers?
   - **Supply and demand; inflation; profits; economic mobilization; reconversion.**

7. Differentiate between the public sector and the private sector in the American economy.
   (a) Why did World War I lead to an expansion of the public sector at the expense of the private sector?
   - **Mixed economy; government's role; economic mobilization; allocation of resources.**
   (b) Why was a War Industries Board necessary during World War I?
   (c) Why did the Federal government operate the nation's railroad system during the War?
   (d) Why did we need a Shipping Board?

8. What is meant by "all-out economic mobilization" in wartime?
   (a) Why was this necessary during World War I and World War II?
   (b) Was it necessary during the Vietnam War? Explain your answer.

9. Some writers said that "war socialism" existed in the U.S. between 1917 and 1919. What is socialism? Do you agree with these writers? Justify your answer.

10. Why did the Federal government intervene in labor-management relations during World War I? How did it intervene? Do you think that governments should intervene in labor-management disputes at any time? Explain your point of view.
    - **Mediation, conciliation, arbitration; labor's role in the economy; wages and prices.**

11. To win the War, the Wilson Administration required sacrifices from all.
    (a) How did the Federal government urge consumers to conserve scarce resources and foodstuffs for the war effort?
    (b) How did it discourage the buying of luxuries?
    (c) How did it regulate profits?
    - **War excise taxes; rationing; surplus profits taxes; income and corporate profits taxes.**

12. Two-thirds of the cost of World War I was raised by borrowing; one-third by taxation.
    (a) How was the two-thirds actually brought into the U.S. Treasury?
    (b) What effect did borrowing have on the national debt?
    (c) How was the additional revenue actually raised by taxation?
    - **Taxation; national debt; government bonds and savings stamps; wartime finance.**

13. Why did serious inflation occur in the U.S. during World War I?
    (a) If you had been President, what would you have done to keep down consumer prices?
    (b) Did we learn lessons about inflation in 1918-20 that we could use in subsequent wars? Explain your answer.
    - **Supply and demand; causes of inflation; government controls (price controls, wage controls, rationing, rent controls).**

14. What was the immediate effect of World War I on the American farmer? What was the long-range effect?
    - **Supply and demand; farm prices; farm costs and output; farm surpluses; farm debt.**

15. How did World War I affect the economic condition of the blacks in the U.S.?
    - **Migration to northern cities; formation of ghettoes; job opportunities; contributions to the war effort; job competition with whites.**

16. Explain how each of the following helped to aggravate the Great Depression of the 1930's and to create the bitterness and hatred that led to World War II.
    (a) The American policy of high protective tariffs.
    (b) The huge reparations bill imposed on Germany and the problem of war debts.
    (c) The break-up of economic units like the Austro-Hungarian Empire.

17. Summarize (a) the worldwide economic effects of World War I, and (b) the economic effects of the War on the U.S. economy.
    - **Human and material costs of war; disruption of trade; taxation; foreign debts; new political-economic systems; debtor and creditor nations; postwar depressions; war as stimulus to industries; national debt; taxation; postwar farm slumps.**

18. Why do some people say that the United States "came of age" as a nation as a result of World War I. Do you agree or disagree? Why?
    - **Economic development; U.S. as world economic power; creditor nations.**

ACTIVITIES

1. *Chart:* Make a chart comparing the methods used to raise money during the Civil War and World War I.
2. *Role-Playing:* Ask a student to stage an impromptu Liberty Bond Rally in class. Follow the rally by a discussion of the methods by which bonds were sold during the Civil War and World War II and today.
3. *Graph:* Have the students construct a bar graph showing the size of the national debt in 1900, 1910 and 1920.
4. *Panel Discussion:* Ask the students to conduct a discussion on the importance of the "home front" in World War I. Have members of the panel represent a housewife, a shipyard worker, a farmer, a Red Cross worker, a Salvation Army woman. A general discussion on the importance of home front morale can follow.
5. *Union Meeting:* Transform the class into a union meeting discussing evidences of profiteering and the need for equal sharing of the burdens during wartime. A series of resolutions on specific measures to deal with profiteering could be used to summarize the discussion.
6. *Oral Reports:* Have the students prepare individual reports for presentation to the class on the following topics:
   - World War I taxes
   - Herbert Hoover and the Food Administration
   - Gasless Sundays and heatless days—the Fuel Administration
   - The Allied war debts
   - The work of the Shipping Board
7. *Cartoons:* Ask the students to draw cartoons or posters on various economic aspects of World War I. Suggestions:
   - U.S. economic contributions to the Allies
   - The American farmer and the war
   - Consumer sacrifices for the war effort
   - Sale of Liberty and Victory Bonds
   - Food will win the war.
8. *Headlines:* Ask the students to write three headlines dealing with how the United States aided the Allied cause economically.
9. *Research Project:* Have an interested student investigate the allegation that the United States entered World War I largely to protect the private loans that bankers had made to the Allied powers during the first two years of the war, and have him or her write a short defense or refutation of this theory.
10. *Panel Discussion:* Set up a panel discussion on the economic effects of World War I on the victors. Have various members deal with specific problems such as war casualties, destruction of property, war debts, inflation, dislocation of international trade, rise of dictatorships, rise of "isms," and the new role for the United States as creditor nation.
11. *Sound Filmstrip:* Show *The Road to War: to 1917* and *The War and the Treaty: 1917-1919* in the series "The United States as World Leader" (Multi-Media Productions).
12. *Motion Picture:* Show *World War I: The War Years* (13 minutes; Coronet) to review the events leading to America's entry into World War I.
13. *Filmstrip:* Show *Woodrow Wilson:* Part II (Pictorial) to teach America's role in World War I.
14. *Meet The Press:* Simulate a press conference with President Wilson after the creation of the War Industries Board to ascertain his views regarding the need for government regulation and control of industry during wartime. Cast a good student in the role of President Wilson and assign the role of reporters to several other students. Follow this sociodrama with class discussion.
15. *Forums and Panels:* Ask a panel of students to discuss one of the following questions:
    - To what extent should individuals be required to give up economic freedoms and accept government controls during wartime emergencies?
    - Why did the peace movement of the early 20th century fail to prevent the outbreak of World War I?
    - Was an Allied victory impossible without American intervention?

TOPIC 15

The 1920's and the Depression of the 1930's

Economic Facts, Concepts, Principles or Problems

The business cycle
New fields—autos, movies, radio
Sick industries of the 20's

THE 1920's have been characterized as "roaring," "golden" and "expansive." Were they? Little thought had been given by the government to postwar planning. (When asked to address the Reconstruction Congress of American Industries in 1918, Wilson replied: "You may be sure that I would send a message . . . if I knew what message to send, but frankly I do not.") People simply wanted to return to "normalcy" as soon as possible. Only two days after the armistice the War Industries Board started to remove **price controls,** and within a month about half the uncompleted war contracts were canceled. Nevertheless, prosperity generally continued. Some unemployment resulted from the military demobilization and the **reconversion of industry** to peacetime production, but the U.S. Treasury was spending more than it received (a factor that tends to stimulate the economy) in 1919, and building construction and auto manufacturing—industries which had been retarded by the war—were now ready to "take off." There was a short but sharp **depression** in 1921, as government spending decreased (in fact, by the fourth quarter of 1919 an excess of receipts over expenditures had appeared), as consumers began to balk at the high retail prices, as construction declined (because of the lack of mortgage credit and high building costs), and as the Federal Reserve began to tighten credit.

Recovery was rapid, however. There was still a great need for housing and commercial buildings, and the rapidly growing auto industry engendered growth in road building, gasoline production, tires and other related products.* The chemical industry expanded in a spectacular fashion, and there was a boom in electrical equipment and radio. The **industrial production index** nearly doubled between 1921 and 1929. Nevertheless, the **prosperity** of the 1920's was uneven. The boom in American agriculture ended when European farm output revived. Farm land prices had soared and farmers had gone heavily into debt. Thus, when prices of farm goods collapsed (the index of farm prices dropped from 209 in 1919 to 116 in 1921, with the period 1910-1914 = 100), the farm bankruptcy rate soared and farm foreclosures were high throughout the middle 1920's. Cotton manufacturing, coal mining, the shoe and leather business, and shipbuilding were also in distress. In some areas there was high unemployment even in good years. Whether the decade of the 1920's was a golden age or "The Great Illusion," it is worthy of study if we are to learn anything from history. If the conditions which led to the Great Depression of the 1930's can be identified in the 1920's, ought we to be alert to similar conditions during modern periods of prosperity?

Students should realize that a **recession** or **depression** is not simply someone else's problem. Those who still have jobs or whose businesses are still operating should not be complacent about a business downturn. First, one ought not to be indifferent toward the suffering of those who are directly affected Second, the depression may spread and eventually hit *us*. Third, society as a whole is affected by it, for we are not producing as many goods and services as we could be producing. Thus, the pie that we all share has become smaller. When a gap exists between what we are producing and what we *could* be producing, the nation is failing to live up to its potential. We are better able to cope with such problems as chronic poverty, slums and pollution when our economy is strong and when we are fully and efficiently using our productive resources.

The factors that can cause business to expand or contract should be examined in detail. The weather was once considered to be an important determinant, and this is still a factor in agricultural nations and even in farm areas of industrial nations. It is probably a very minor element in the American **business cycle** of recent times, however. Discoveries and inventions can have an impact on the economy, as illustrated by the finding of gold in 1848, and the development of such things as the railroad, the steamboat and the automobile. (For a practical project, students might examine the new industries of today, attempt to ascertain their potential importance to the economy, and find out whether or not they present good employment or career opportunities.) Some feel that **underconsumption** was a major cause of the Great Depression—that the richest 10 percent of the population controlled too much of the spending power and thus the masses could not buy all the goods and services being produced. (As income rises, people may spend more in *absolute* terms but tend to spend a smaller *percentage* of total income and save a greater percentage. Thus, it is argued that a heavy concentration of wealth in the hands of the rich can have a depressing effect

*Millions of jobs were directly or indirectly created by the automobile, and many economic historians assert that the new industries and wealth generated by the automobile stimulated the entire economy.

on the economy because these people will not put enough money into circulation to keep the economy moving at a healthy rate.) **Overproduction** is seen as a cause by some. Industry may overestimate the demand for its products, invest too much in new plant and equipment, produce more than it can sell, and be forced to lay off workers, cancel orders for raw materials, and so on. Bank credit is also seen as playing an important role. Businesses borrow from banks to expand their operations, pumping money into the economy. (Remember that bank credit makes up the major portion of our total money supply.) Eventually, however, the expansion of bank credit stops, for there is a limit to the amount that banks can lend. Thus, there is a shortage of capital funds, interest rates rise (note that supply and demand applies to money as well as to goods, and that the interest rate is the "price" paid for borrowed money), some capital projects that have been started must be abandoned, investment declines, spending is reduced and workers begin to lose their jobs.*

In studying possible causes of the business cycle, students might relate the subject to their own interests by giving thought to the occupations or businesses they are planning for the future. Are they planning to enter fields which are relatively untouched by business ups and downs, or are they thinking of enterprises which may enjoy great prosperity during boom periods but can be hit hard during a recession? (For example, a student planning a career in the construction industry might want to examine the theory of the building cycle.")†

The various phases (depression, recovery, prosperity and recession) of a "typical" business cycle can be examined, with particular attention being paid to the possible causes that can be found throughout. (For instance, is overconfidence on the part of businessmen during the prosperity phase a factor in causing them to produce more than they can sell, and—if so—does this lead to the laying off of workers that may push us into a recession?) The effects on different sectors of the economy, workers in different fields and the public in general should be noted.

Bright students can examine some of the more sophisticated theories and principles related to economic activity, such as Say's Law as opposed to the "new economics" of John Maynard Keynes, the **marginal propensity to consume and to save,** the **multiplier,** the **accelerator,** and the **paradox of thrift.** Standard textbooks in principles of economics can be consulted for explanations of these concepts.

The Great Depression of the 1930's would make an excellent case study. Among the possible causes that should be examined are excess industrial capacity, the saturation of the market for new consumer durables, the decline in residential construction after 1926, extremely high indebtedness (in the form of mortgage credit, consumer credit and borrowing for stock purchases), the stock market crash of 1929, a reduction of the money supply, declining prices, high tariffs which reduced our foreign trade, and drought in the farm areas. Proposals for controlling the business cycle can be discussed at this point or can be taken up in the next topic.

*We have greatly simplified these theories of business cycle causation. Teachers should consult a standard principles of economics textbook or, better still, a basic text on business cycles.

†See Carl Dauten and Lloyd Valentine, *Business Cycles and Forecasting,* 3rd edition (Cincinnati: South-Western Publishing Company, 1968), pp. 328-336.

DISCUSSION QUESTIONS

1. The American people were eager to "return to normalcy" as soon as World War I ended. How did this help create some economic problems?
   - **Reallocation of resources; economic demobilization; reconversion of industry; cancellation of war contracts; inflationary pressures; pent-up demand; unemployment.**
2. A short but sharp depression occurred in the U.S. in 1921. Why? Why did the economy in general recover very rapidly?
   - **Business cycle; growth of industries; deferred consumer purchases.**
3. Explain how new enterprises, such as auto manufacturing, road construction, new building construction, radio and the movies, helped to create new jobs during the "Golden Twenties."
   - **Interdependence; investment; circular flow of income; specialization; profit motive.**
4. Although the years after World War I were called "the prosperous twenties," coal mining, textiles, the railroads and farming were becoming "sick industries." Discuss the reasons why each of these was in trouble.
   - **Depressed areas; innovation; automation; new power sources; foreign competition; shifts in consumer demand; overexpansion; overproduction; farm surpluses.**
5. What is a business cycle? Describe the phases of the cycle. What phase of the cycle do we seem to be in at the moment?
6. Give at least four possible explanations for the business cycle. Which seem to describe the causes of the following depressions: 1837, 1873, 1893, 1921?
   - **Business cycle theories; speculation; overexpansion; money and banking policies.**
7. Describe four or more suggested ways of controlling business cycles. Which do you consider most effective? Why?
   - **Fiscal policy; monetary policy; built-in stabilizers; multiplier and accelerator; government's role.**

8. Was the stock market crash of 1929 a cause or a symptom of the Great Depression? Explain your answer.
   - **Securities market; business cycle; investment.**
9. A recession is everyone's problem because it eventually hits each one of us. Is this true or false? Explain your answer.
10. Economists have attributed recessions to the following factors, among others. Explain how each can influence the expansion or contraction of a nation's volume of business. (a) Weather conditions; (b) discoveries and inventions; (c) underconsumption; (d) overproduction; (e) popular psychology; (f) monetary and fiscal policies.
11. In choosing your own life's work or profession, why is it essential that you study "cyclical trends" in your line of work?
    - **Impact of business cycle on various industries; supply and demand.**
12. Discuss the basic causes of the Great Depression.
    - **Overexpansion; overproduction; underconsumption; money, banking, and credit; stock market speculation; land values; decline in foreign trade; economic effects of war.**
13. "A little deflation (or recession) at the right time is a good thing." Do you agree? Why, or why not? How can monetary and fiscal policies help cause deflation?
14. Many economists believe that the business cycle can be controlled.
    (a) How do socialists propose to eliminate the ups and downs of business?
    - **Planned economy; government ownership and control.**

    (b) How do the advocates of free enterprise expect to master the business cycle?
    - **Monetary and fiscal policies; free market system; built-in stabilizers.**

    (c) How would you like to see the cycle controlled? Explain.

ACTIVITIES

1. *Graph:* Draw a graph indicating changes in the following between 1929 and 1933:
   Unemployment — Gross National Product
   Foreign trade — Bank failures
   Profits
2. *Panel:* Conduct a panel discussion on the causes of the depression. Let the students assume the roles and present the views of each of the following: a farmer, an investor, an economist, a labor leader, a banker, a psychologist. Ask the panel chairman to summarize the causes of the Great Depression on the chalkboard after each panelist completes his argument.
3. *Chart:* Make a chart comparing the causes and results of the Depressions of 1837, 1873, 1893, 1907 and 1929.
4. *Book Reports:* Ask the students to write a book report on a book about the Depression of the 1930's. The following are recommended:
   J. K. Galbraith —*The Great Crash: 1929*
   F. Allen —*The Big Change* (Chapter 10)
   D. Wecter —*Age of the Great Depression*
5. *Time Line:* Make a time line of Ten Years of Republican Rule (1922-1932). Include the administrations of the Presidents, major events and major legislation.
6. *Oral Reports:* Ask the students to do library research and present reports on the following topics:
   Theories of the Business Cycle
   The Post-World War I Farm Problem
   The AF of L from 1881 to 1931
   Harding and the Return to "Normalcy"
   Keep Cool With Coolidge
7. *Debate:* Resolved: That the United States adopt a policy of unrestricted immigration.
   Resolved: That the United States adopt a policy of free trade.
8. *Speaker:* In a farming area, invite the County Agent, Farm Bureau representative or officer of the local Grange to present a brief survey of the history of agriculture in the county. Preplan the visit, and present the speaker with guidelines for the occasion.
9. *Newspaper Clippings:* While you are dealing with the farm problem, reserve a part of the bulletin board for current newspaper clippings dealing with the farmer and his problems. A current trend or problem—or achievement—usually serves as an excellent springboard to the topic.
10. *Sound Filmstrip:* Show selected reels of *The 1920's,* a series of color filmstrips in the American Decades Series which survey political and economic patterns, science and technology, the struggle for human rights, and cultural developments for the period under study.
11. *Sound Filmstrip:* Show the Warren Schloat Productions *Folksongs of the Great Depression* to create the mood and to highlight the problems of the era (2 color filmstrips, 2 LP records, and teacher's guide).
12. *Records:* Play the Folkways/Scholastic record "Songs of the Great Depression." Ask the students to identify the economic problems touched on in the songs. Another approach would be to play "Hard Times: The Story of the Depression in the Voices of Those Who Lived It" (Caedmon).
13. *Sound Filmstrip:* Show *The Great Depression* (Multi-Media Productions) to teach the facts and the flavor of this period in American history (2 color filmstrips and 1 LP record).
14. *Game: "Panic"* (Interact). Panic is a simulation of the prosperity of the 1920's and the depression of the 1930's and the problems and the pressure groups involved. Level: Junior and Senior High School. Playing time: 23 hours. Number of players: 25-36.

15. *Filmstrips:* The following filmstrips explain various aspects of "the economics of depression":
    Business Cycles and Fiscal Policy (Young America)
    Prosperity and Depression (SVE)
16. *Motion Picture:* Show *'29 Boom and '30 Bust* (15 minutes; McGraw-Hill) to teach the causes of the Great Depression and its immediate effects through newsclips. It also develops a rationale for contracyclical policies.
17. *Motion Picture: The United States in the Twentieth Century: 1920-1933* (18½ minutes; Coronet) reviews the Republican Era and the start of the Depression largely through newsreel filmclips.
18. *Filmstrip:* Show *Controlling the Business Cycle* (McGraw-Hill) to describe a typical business cycle. Accelerator and multiplier analysis are introduced to explain cumulative movements. There is a discussion of built-in stabilizers and contracyclical fiscal policy.

TOPIC 16

The New Deal

Economic Facts, Concepts, Principles or Problems

- Controlling the cycle
- Fiscal and monetary policies
- Keynes
- Automatic stabilizers
- Social Security
- SEC
- Wagner Act
- NRA
- Child labor laws
- FDIC
- New Deal and labor
- New Deal and the farmer

IN 1933 the comedian Will Rogers remarked that if Franklin Roosevelt burned down the White House the people would cheer him because "at least he got a fire started." Almost any kind of action seemed to be preferable to none, for indeed the situation had become desperate. In 1932 business was producing only half what it had been in 1929. Auto production was only one-fourth of its 1929 level, exports had fallen from $5.2 billion to only $1.6 billion, banks were failing by the thousands (over 9,000 bank suspensions occurred between 1930 and 1933), and the **depression** had become a worldwide phenomenon. Hungry mobs smashed store windows to steal food, the army was called out to disperse unemployed war veterans who had marched to Washington to demand help (in the summer of 1932), and armed farmers were banding together. Hoover had done more to cope with the depression than is generally realized, but in the face of nearly 13 million unemployed workers (about 25 percent of the labor force), thousands of business failures and a stock market collapse, his efforts were far too feeble. School children somtimes fainted from hunger, 20 percent of the pupils in New York City schools were found to be suffering from malnutrition, and one school found that 99 percent of its children were underweight. The notion that problems of this magnitude could be handled by private charities and local governments was untenable—indeed, even state governments were running out of funds, and teachers and other state employees worked without pay for months at a time.

It is not an exaggeration to say that one could teach an entire basic economics course around the New Deal, for most of the major analytical tools and principles of economics can be brought to bear in a study and analysis of the policies of the Roosevelt administration. Furthermore, the dramatic way in which FDR approached problems (such as the closing of all banks in the nation on the very day of his inauguration) should help to make the study interesting.

The opportunities for including economics in a study of the New Deal period are so great that it is not even possible to list all of them in the space we have available. Money and banking are very much in the picture because of the large number of bank failures in 1933 (over 4,000), the establishing of the Federal Deposit Insurance Corporation, emergency banking legislation, the **devaluation** of the dollar, abandonment of the **gold standard,** the added powers given to the Federal Reserve, and the use of **monetary policy** during the depression. (Tantalizing question: "In view of the fact that the Federal Reserve had been in existence for two decades, why didn't it prevent the depression in the first place, and why was it unable to end the depression in the second place?")

Fiscal policy now takes on great importance. Most economists agree that government can stimulate a lagging economy by reducing taxes and increasing its own spending. This means that government should spend more than it takes in, however, so a budget deficit will occur. Those who believe that fiscal policy should be a major weapon in controlling the **business cycle** assert that it is quite proper for the government to have a **deficit** when a recession or depression exists, and to have a **surplus** (spending *less* than it receives in taxes) when inflation is the problem. The idea is to pump money into the economy in bad times, and to take money out of the spending stream during periods of **full employment** and rapidly rising prices. Thus, a budget deficit or high federal **debt** is not seen as being bad *per se* —it all depends upon when this occurs. Laymen are often concerned about the size of the federal debt, but economists insist that it be placed in perspective. How large is the debt *per capita* (i.e., divide the total debt by the population)? How large is it in relation to the Gross National Product? For example, the federal debt in the summer of 1971 was about $400 billion. In 1946 the debt was about $260 billion, a much smaller figure in *absolute* terms. Yet, the 1946 debt was about 129 percent of GNP—that is, for every dollar's worth of goods and services being produced in the U.S., the government was in debt to the tune of $1.29. By

1971, however, the GNP had reached one trillion dollars; thus, the 1971 debt was only about 40 percent of the GNP for that year. Some try to compare the public debt with private debt, saying that it is foolish for a family to "spend beyond its means" and thus it is also foolish for government to do so. They fail to realize, however, that government can do things that a family cannot. It can levy taxes, for example, and it can refund (renew) the debt indefinitely simply by issuing new bonds as old ones mature. Furthermore, it must be understood that the debt is largely internal, for most of the federal securities are held by Americans, not by foreigners. This is not to say that a high public debt should not concern us, but simply that casual evaluations and snap judgments must be avoided.

FDR's various actions to bring about full employment can be assessed, with emphasis upon the question of whether similar moves might be taken today to deal with the problem of high unemployment among youths and minority groups. Is direct action, such as the building of roads, dams, schools and hospitals preferable to indirect action, such as tax reductions or Federal Reserve "easy money" policies?

In addition to monetary and fiscal policies as instruments for controlling the business cycle, we also have **automatic (or "built-in") stabilizers.** The unemployment insurance system, created during FDR's New Deal, is one such stabilizer. Unlike the discretionary policies,* the built-in stabilizers go to work automatically to counter cyclical trends. During good times, employers are paying taxes into the unemployment insurance fund. Of course, this is a time when they are best able to pay the taxes and when money should be withdrawn from the economic stream to help combat inflation. Then, when a recession appears and workers lose their jobs, the money flows back into the spending stream in the form of unemployment insurance payments This not only aids the unemployed workers, but helps to stimulate the economy. Another stabilizer is the progressive income tax, for the rates tend to rise as one's income rises during good times (helping to control inflation) and to fall when incomes fall during bad times. The automatic stabilizers cannot by themselves counter the business cycle, however.

The New Deal brought a great change in government's relations with labor. Previously, government had tended to remain neutral or to favor management in labor disputes, but now unions were given positive encouragement through such things as the Wagner Act. Social Security and the Fair Labor Standards Act were also key pieces of legislation. Both have undergone substantial revision, and everyone should understand what these laws provide for today. There are many value questions that can be discussed, involving the extent to which Social Security should be increased, how high the **minimum wage** should be, whether workers not currently covered should be brought under its protection, and so on.

Other New Deal actions that relate to important current issues are those involving aid to the farmer, control of the securities markets, consumer protection, reduction of tariffs, public housing, government projects (such as TVA), public utility regulation, conservation, merchant marine subsidies, slum clearance, and welfare programs.

Did Roosevelt "lead us down the road to socialism" or was he the "saviour of the capitalist system"? The whole question of government's proper role in the economy can be related to a unit on the New Deal. Economic theories come into play, not as sterile exercises in logic, but as models or tools that can help us to cope with serious problems.

*Someone in government must decide whether or not to increase or decrease spending or to change taxes. The Federal Reserve must decide whether to pump money into the system or to draw it out. The decisions can take a great deal of time, for there may be disagreements on the magnitude of the problem, just what action to take, how strong the action should be, when to make the move, and so on.

DISCUSSION QUESTIONS

1. Although President Hoover opposed Federal relief for the unemployed, he did make some effort to cope with the Depression. Why did his efforts fail?
   - **Old vs. new theories of business cycle; government's role.**
2. How did Franklin Roosevelt's approach to the problem of the Depression differ from Hoover's? Why was he more successful?
   (a) How did Roosevelt handle the problem of unemployed youth?
   - **Civilian Conservation Corps; National Youth Administration.**

   (b) Would similar measures solve the problem of youth unemployment today? Explain.
3. Discuss the grave economic problems faced by Roosevelt on March 4, 1933.
   - **Unemployment; bank failures; business failures.**
4. Historians speak of Roosevelt's three "R's"—Relief, Recovery and Reform. Describe at least one New Deal measure designed to accomplish the purpose implied in each of the three "R's."
5. Discuss the immediate and ultimate purposes of the National Recovery Program of 1933. Was the program a success or failure? Explain your answer.
6. Over 4,000 banks failed in 1933. What caused this?
   (a) Why was the Federal Reserve System unable to prevent the failures?
   (b) How did new banking legislation and deposit insurance cope with the problem?
7. What is meant by fiscal policy? What is its purpose?
   - **Business cycle; inflation and deflation; deficit financing; accelerator and multiplier.**
8. Explain the role of each of the following in fiscal policy: (a) pump priming; (b) deficit financing; (c) built-in stabilizers; (d) debt management.
9. Explain what is meant by the *national debt?*

(a) Why are economists more interested in the size of the debt *per capita* than in its absolute size?
(b) In 1972 the national debt was about $400 billion, while in 1946 it was $260 billion—yet economists say that the 1972 debt was *less* of a burden. Explain this.
(c) Why do economists usually say that the national debt should not be compared with the debt of a family or individual?

10. Discuss the "cushions" created by the New Deal to soften the impact of future depressions. In your opinion, which are most effective? Why?
- **Built-in stabilizers; monetary and fiscal policies.**

11 How did the status of labor unions differ before and after the New Deal?
(a) Explain how employers resisted unionization before the New Deal?
- **Injunctions; open shop; company unions; blacklist; yellow-dog contract.**

(b) How did the National Industrial Recovery Act and the Wagner Act help to increase union membership?
- **Collective bargaining; bargaining agent; fair labor practices.**

(c) How does the current Administration's policy toward unions compare with that of Franklin Roosevelt's New Deal?

12. During various periods of the 20th century, farmers have been less prosperous than other workers or businessmen.
(a) Why did farmers face hard times after both World War I and World War II?
- **Supply and demand; elasticity of demand; farm costs and output; farm debt; loss of foreign markets after wars; middleman's costs; foreign competition; surpluses.**

(b) Describe at least two policies of the Federal government that have been adopted since 1900 for the purpose of raising the level of farm income.
- **Parity; supports; soil bank; etc.**

(c) Why do the problems of the farmer differ from those of other businesses, such as manufacturing?
- **Pure competition vs. administered markets; inelastic demand; difficulties in controlling output (uncertainties in the weather, for example).**

13. "The farm problem is basically a problem of price disparities." Explain this.
(a) Why are industrial prices often higher than farm prices?
(b) During the Great Depression the prices of farm tools and equipment dropped by only 6 percent, while the prices farmers were receiving for their output dropped by 63 percent. How do you explain this? What effect did it have on the farmer?
- **Pure competition vs. administered markets; supply and demand; real income.**

(c) What is meant by "parity payments" and how are they used to help the farmer?

14. Explain by citing specific examples of his policies why Franklin Roosevelt is said to deserve an honored place in the Environmental Hall of Fame.
- **Conservation; TVA; CCC; Soil Conservation Act; Soil Conservation Service.**

15. Explain why Roosevelt was considered to be a pioneer in the consumer movement.
- **Food, Drug and Cosmetics Act of 1938; FTC and advertising**

16. Show how the Tennessee Valley Project was a "social experiment." How was the TVA also an example of regional planning?
- **Depressed areas; regional economic development; government's role; social capital.**

17. If there had been no New Deal, would "natural forces" have brought about a recovery of the U.S. economy before World War II? Give reasons for your opinion.
- **Business cycle theories; free market vs. government intervention.**

18. Did reform measures like the Securities and Exchange Act hasten or retard recovery? Explain your answer.
- **Government and business; securities market; business psychology.**

19. Explain how the New Deal attempted to aid: (a) bank depositors; (b) buyers of securities; (c) the railroads; (d) the unemployed; (e) consumers; (f) youth.
- **FDIC; SEC; Motor Carriers Act; unemployment insurance; Food, Drug and Cosmetics Act; Civilian Conservation Corps; N.Y.A.**

20. What are public utilities? How do they differ from other businesses?
- **Natural monopoly; business costs and output; elasticity of demand.***

(a) Why do states regulate the rates and services of public utilities?
(b) What problems do we encounter in regulating public utilities?
- **Determining cost of output; concept of "reasonable" profit; consumer representation.**

(c) Why did the Federal government enact legislation to regulate interstate public utility holding companies?
- **Pyramiding of holding companies; monopoly prices; inelastic demand.**

*Public utilities are often considered to be "natural monopolies" because it would be wasteful to have competition. For example, note how uneconomical it would be to have several competing telephone companies operating in a given metropolitan area. Public utilities are also often characterized by very high fixed costs—that is, they must make huge investments in plant and equipment. To duplicate this expensive capital equipment when it is not necessary to provide adequate service to the public would be an economic waste and might even increase unit costs and prices. As for elasticity, the demand for the output of public utilities is often relatively inelastic. The product is a necessity (as in the case of electric power), and if the price rose by 20 percent the amount sold would drop by *less* than 20 percent. Thus, public utilities are usually legal monopolies, with price and service being regulated to protect consumers from the exploitation that an unregulated monopoly might imply.

ACTIVITIES

1. *Class Discussions:* Class discussions may be held on topics such as the following:
   - Did the New Deal preserve capitalism in the United States?
   - Should industrial wages be uniform and guaranteed?
   - Should the government intervene in labor-management disputes?
   - Should unions be incorporated and closely regulated by the government?
2. *Debate:* Resolved: That the National Recovery Program of 1933 was an experiment in state socialism and as such unwise.
3. *Interview:* Interview a senior citizen regarding his memories of the depression, FDR's recovery efforts and his estimation of Franklin D. Roosevelt's place in history.
4. *Organizational Chart:* Draw an organizational chart showing the structure of the American Federation of Labor before the formation of the Committee on Industrial Organization, chaired by John L. Lewis.
5. *Community Survey:* Make a survey of the chief unions in your community. How many are organized on a craft basis? on an industrial basis? Are all of them affiliated with the AFL-CIO?
6. *Oral Reports:* Ask students to do library research and report on the following topics:
   - New Deal Banking Reforms
   - Work Relief under the WPA
   - The TVA—An Experiment in Regional Planning
   - New Deal Farm Legislation
   - The Good Neighbor Policy
   - The Social Security Act
   - The New Deal and the Home Owner
   - New Deal Labor Legislation
   - John L. Lewis and the CIO
7. *Investigation:* If there is a strike in progress in your community, investigate the issues involved, the attitude of the public, how you would resolve the issues. Report to the class and invite discussion.
8. *Panel Discussion:* Organize a panel discussion on the farm problem during the 1930's. Let the discussants represent a city worker, a housewife, a railroad executive, a banker and a manufacturer. Why is each vitally interested in prosperous American farms? Why is the Federal government gravely concerned about the farm problem? What can it do?
9. *Agricultural Hall of Fame:* Organize a committee to select several heroes for the Agricultural Hall of Fame. Each committee member speaks on behalf of his candidate. After a general discussion, the class can decide which five should be honored.
10. *Devaluation—Yesterday and Today:* Ask students to design a chart to emphasize the essentials of Franklin D. Roosevelt's and Richard M. Nixon's devaluation of the dollar. The chart might include reasons for devaluation in each case, the extent of the devaluation and the effects of the action.
11. *Graphs:* Indicate in some graphic way:
    (a) the fall and rise in GNP between 1929 and 1939
    (b) the rise of the national debt between 1929 and 1939
    (c) the decline and increase in farm income between 1929 and 1939
    (d) the decline and rise in the volume of exports and imports between 1929 and 1939
12. *Time Line:* Draw a time line to indicate the year in which specific major New Deal legislation was passed. Does your time line indicate that there was a First and Second New Deal as some historians claim? Explain your answer.
13. *Essay:* Write a short answer in the form of an essay to the following question: If you were President of the United States, what measures would you adopt to sustain prosperity or to hasten recovery during a recession?
14. *Sound Filmstrip:* Show selected reels of *The 1930's,* a series of color filmstrips in the American Decades Series (International Film Bureau) which survey political and economic patterns, science and technology, the struggle for human rights, and cultural developments for the period under study.
15. *Game:* "International Trade" (Science Research Associates). This game emphasizes the importance of international trade in the world economy by permitting the participants to play the roles of competitive importers, exporters, traders and bankers to gain profits from trade and to increase the general welfare. Level: Senior High School. Playing time: 2-5 hours. Number of players: minimum of 6.
16. *Sound Filmstrip:* Show *The New Deal,* 2 color filmstrips and 1 LP record by Multi-Media Productions, to make the events of the era of Franklin D. Roosevelt come alive.
17. *Speaker:* Invite a speaker from the local Social Security office to address the class on some aspect of Social Security, possibly including the current emphasis on Social Security benefits for young families.
18. *Graph:* Ask the students to draw a line graph indicating the increase in the minimum wage rate from 1938 to the present.
19. *Records:* Play the Folkway records "Talking Union" and "American Industrial Ballads" to create interest in the drive to organize the unorganized workers in the 1930's.
20. *Motion Picture: The United States in the Twentieth Century: 1932-1940* (21 minutes; Coronet) reviews the New Deal era with emphasis on major legislation. Uses newsreel clips.
21. *Motion Picture:* Show *New Deal* (25 minutes; McGraw-Hill). The film analyzes the problems of the Depression and the government's role in the economy.

TOPIC 17

World War II

Economic Facts, Concepts, Principles or Problems

International economic problems before World War II
Emergency controls
Economic impact of the war
Neutrality legislation

In previous topics we have briefly mentioned some of the economic factors following World War I that helped to bring on World War II. A detailed study of the international economic scene between the two world wars would be worthwhile. Careful economic analysis is called for, and policies on German reparations (fixed at $56 billion), the **tariff, immigration,** interallied **war debts,** and **gold** ought to be evaluated by the class. Were the actions taken wise or unwise? What lessons can we derive from them?

Teachers should consult economics textbooks for explanations of different **monetary standards.** Students will have to know how the **gold standard** worked, for example, to grasp the implications of the worldwide economic crisis of 1931, to know why the Bank of England was forced off the gold standard in September of that year, and to see both the international and domestic effects of America's gold policy in June of 1933 and the **devaluation** of the U.S. dollar in January of 1934. (The price of gold was changed from $20.67 per ounce to $35 per ounce—a 40.94 percent devaluation of the U.S. dollar. When one nation devalues its currency while others do not, that nation obtains an advantage in international trade.*) Most basic textbooks will also explain the mechanics of trade (how **international exchange** takes place), the importance of services (invisible items) in world trade, and the meaning of **balance of trade** and **balance of payments.** All of these concepts are necessary if one is to understand *current* international economic problems as well. It should be instructive to contrast the handling of such problems during the 1920's and 1930's with the way in which they have been handled since World War II. (For example, note America's leadership in bringing about international economic cooperation during and after World War II in comparison with U.S. failure to cooperate fully during the London Economic Conference of 1933.)

The use of economics as a diplomatic weapon is an interesting subject for study. The Covenant of the League of Nations (1919) called for economic sanctions against nations which resorted to war. Many thought that the impossibly high reparations payments imposed on Germany would prevent that nation from ever becoming a threat to world peace again. After Hitler's rise to power, however, Germany used trade as a device for establishing economic ties with other countries and gaining their friendship. The Neutrality Acts of 1935 and 1936 provided for embargoes on U.S. arms shipments and the extension of loans or credits to belligerents. In 1937 the President was authorized to ban sales of commodities other than munitions. (The Embargo of 1935 failed to include metals that could be converted to military use.) Roosevelt called for a "quarantine" of aggressor nations, and there was a widespread **boycott** in the U.S. of Japanese goods. In 1939 he reacted to the German invasion of Poland by asking Congress to repeal the arms embargo, and this was done under the Neutrality Act passed in November of that year. In 1940, FDR asked Congress to step up defense expenditures and sent millions of dollars worth of arms and munitions to Great Britain. In June of that year, Congress adopted tax measures for national defense totalling nearly $1 billion and raised the debt limit from $45 billion to $49 billion. In September, Germany, Italy and Japan signed a pact for a military and economic alliance (several other nations subsequently signed this pact as well), and Roosevelt placed an embargo on exports of scrap iron and steel to all nations outside the Western Hemisphere except Britain.

Roosevelt was determined that the United States be better prepared for World War II than it had been for World War I. In December of 1940 the Office of Production Management was set up to coordinate defense production and expedite aid to Britain and her allies. In March of 1941 the Lend Lease Act was passed, specifying that American arms and supplies could be sold, transfered, exchanged or leased to countries whose defense was deemed essential to U.S. security. (During the war, total Lend-Lease aid exceeded $50 billion.) In July, Japanese-American trade came to a halt when the President froze all Japanese credits in the United States. Even before the U.S. entered the war, postwar goals were being formulated. In the Atlantic Charter (August 1941) Roosevelt and Churchill called for an easing of trade restrictions, access to raw materials, cooperation in improving the economic

*Assume, for instance, that other nations did not devalue their currencies and that prices remained the same. A Frenchman could get $35 worth of U.S. goods for an ounce of gold instead of only $20.67 worth, as before. Thus, the French would buy more U.S. goods. Meanwhile, French goods would become more expensive to Americans, so French exports to the U.S. would decline. When one nation tries to stimulate its own exports at the expense of other nations in this fashion, however, the others can simply follow suit by devaluing *their* currencies.

position of all people, and freedom from want in addition to such political aims as peace, freedom and democracy.

To shift resources from civilian to military production, and to bring unemployed resources into the war effort, the government took many vigorous actions. The War Manpower Commission was established to make more effective use of our manpower resources. The minimum work week was extended to 48 hours, and 27 million workers were "frozen" in war jobs. To conserve materials for military use, nonessential highway and residential construction was stopped. The Office of Price Administration set price ceilings on all goods (except farm products) and controlled rents in defense areas; and many scarce commodities were rationed. (By the end of the war, prices had risen 31 percent. Nevertheless, this was an improvement over the record of World War I, when prices rose by 62 percent.) A National War Labor Board was given the authority to settle labor disputes by **mediation** and **arbitration.** As a result of a mine workers' strike, the government took over the coal mines in the eastern part of the U.S. Because of a threat of a railway strike, the Army temporarily assumed control over all American railroads.* Among the other agencies which were set up to give government at least partial control over the economy were the Office of War Mobilization, Office of Scientific Research and Development, Office of Defense Transportation, War Shipping Administration, and National Housing Agency.

It might be interesting to have the students compare the all-out **economic mobilization** of World War II with the more limited Vietnam War effort. How did World War II affect the U.S. economy as compared with Vietnam? What accounts for the differences? The cost of World War II was enormous. The **public debt** rose from about $49 billion in 1941 to over $258 billion in 1945—an increase of over 500 percent. Nearly 89 percent of the budget expenses for the fiscal years 1941-1945 were for war purposes. The terrible costs in terms of human life and the destruction of property cannot be quantified. In the next topic we shall deal with the economic impact of the war and how postwar problems were handled.

*Most labor leaders adhered to a "no-strike" policy during the war, however.

DISCUSSION QUESTIONS

1. In analyzing the international economic scene between the two world wars, some economists say that the U.S. helped to sow some of the seeds of World War II.
   (a) Why are American policies regarding the tariff, immigration, interallied war debts and gold considered to have been unwise after World War I?
   (b) What lessons can we derive from the economic causes of World War II?

2. To grasp the implications of the worldwide economic crisis of 1931, we must understand how the gold standard worked. Explain the gold standard.
   (a) Why was Great Britain forced off the gold standard in September 1931?
   (b) Why did the U.S. devalue the gold dollar in January 1934?
   (c) Why did President Nixon devalue the dollar again in 1971?
   - **Balance of trade and balance of payments; the dollar in world trade; modified gold bullion standard.**

3. How does foreign trade differ from domestic trade? How is it similar?
   - **Foreign exchange rates; tariff, visible and invisible items in world trade; absoiute and comparative advantages; foreign investment.**
   (a) Explain why Americans were able to invest $14 billion in plantations, mines, oil wells, factories and other foreign business enterprises during the 1920's.
   (b) Why did America's foreign trade drop sharply in the early 1930's?
   - **Tariffs and other trade restrictions; impact of worldwide depression on trade.**

4. Some knowledge of the "mechanics" of international trade is necessary to understand current economic problems.*
   (a) Distinguish between balance of trade and balance of payments, and between visible and invisible items in international trade.
   (b) Why are the invisible items important in paying international trade balances?

5. Explain how the problems of German reparations and the World War I debts of the Allies were interrelated.
   (a) Why did German reparation payments break down completely by 1930?
   (b) How did the Hoover Moratorium (1931-32) deal with the problem of war debts?

6. Economics is often used as a diplomatic weapon.
   (a) Explain why the Covenant of the League of Nations (1919) called for economic sanctions against nations that resorted to aggression.
   (b) Show how Nazi Germany used trade as a device for establishing economic ties with other countries to gain their friendship. What countries do the same thing today?
   (c) Describe how Franklin Roosevelt used economic measures as diplomatic weapons prior to December 7, 1941.
   (d) What economic measures does the U.S. use today to support its diplomatic policies?

7. During the 1920's some of the leading industrial nations believed in economic nationalism (self-sufficiency).
   (a) How does economic nationalism affect world trade? Why?

*See Robert Warren Stevens, *A Primer on the Dollar in the World Economy* (New York: Random House, 1972).

- **Tariffs and other trade barriers; exchange controls; boycotts.**

(b) Show how economic isolationism breeds conditions that may lead to war.
(c) How did the extreme nationalism of Hitler and Mussolini affect the economic policies of Germany and Italy before World War II?
(d) What is the relationship between economic nationalism and aggressive foreign policy?

8. Before World War II there were "Buy American" movements in the U.S. and "Buy British" movements in England.
(a) Which economic groups promoted these movements most vigorously? Why?
(b) Which groups opposed these movements? Why?
(c) Would movements like these tend to shorten or lengthen a depression? Explain.
- **Absolute and comparative advantages; tariffs and other trade barriers; foreign competition; impact of trade on domestic economy.**

9. Protectionists believe in *national self-sufficiency* while free traders believe in *geographic division of labor.*
(a) Explain the meaning of the terms in italics.
(b) Which point of view do you favor? Give reasons for your answers.

10. Explain how the Reciprocal Trade Agreements Act and the U.S. Export-Import Bank of 1934 were attempts to revive world trade during the Great Depression.

11. In the 1930's, some Americans suggested that in case of a war in Europe the U.S. could maintain its neutrality by cutting off all trade relations with the powers at war.
(a) Show how this proposal arose out of our experiences during *(1)* the Napoleonic Wars, and *(2)* World War I.
(b) How did the Neutrality Acts of 1935 and 1937 reflect this viewpoint?
(c) Why did neutrality legislation fail to keep the U.S. out of World War II?

12. President Roosevelt was determined that the U.S. would be better prepared economically for World War II than it had been for World War I.
(a) Explain the measures taken by the Roosevelt Administration before December 7, 1941 to prepare the United States for possible involvement.
(b) Why did the Atlantic Charter (August 1941) stress economic as well as political war aims?

13. Roosevelt took many vigorous actions to shift resources from civilian to military production and to bring unemployed resources into the war effort.
(a) Explain how the War Manpower Commission made effective use of our human resources.
- **Labor as a factor of production; efficient allocation of resources.**

(b) Explain how civilian materials were conserved for military use.
(c) Compare the functions of the War Production Board of World War II with the War Industries Board of World War I. How did the activities of these agencies modify the traditional free enterprise market economy of the U.S. for the duration of the war?

14. Explain the functions of the following agencies concerned with the role of labor during the second World War. (a) War Labor Board; (b) War Manpower Commission; (c) Fair Employment Practices Committee.
- **Labor as a factor of production; allocation of human resources; labor relations.**

15. Why does inflation usually become a serious problem during wartime?
(a) What was the function of the Office of Price Administration (OPA)?
(b) To what extent was it more successful in curbing inflation than similar agencies during World War I? Why was it more successful?
(c) How do these wartime efforts at price control compare with President Nixon's actions in 1971?

16. Why was an all-out economic mobilization necessary during World War II, while it has been possible to carry on the Vietnam War with less economic strain?
- **Growth in U.S. productivity; costs of war in relation to GNP.**

17. Describe both the immediate and long-range economic results of World War II, both in the United States and worldwide.
- **Cost of war; problems of reconstruction and development; "revolution of rising expectations"; end of colonialism; foreign aid; international economic organization.**

18. "The terrible costs in terms of human life and destruction of property during World War II can't be quantified." Discuss this statement.

ACTIVITIES

1. *Debate:* Resolved: That America's refusal to join the League of Nations was a critical factor in bringing on World War II.
2. *Cartoons:* Ask the students to draw a cartoon or poster on one of the following topics:

Democratic Capitalism vs. Totalitarian Communism
Economic Nationalism vs. Freer World Trade
Worldwide Depression as a Cause of War
Trade Barriers as a Cause of War

3. *Time Line:* Ask the students to draw a time line indicating the principal economic and political events leading to United States entry into World War II.
4. *Library Research:* Ask the students to do library research on the following topics related to World War II and report their findings to the class:
   Contributions of Blacks to Victory
   The Miracle of Production
   Guns and Butter Too!
   Women's Role in World War II
   America—Arsenal of Democracy
5. *Role-Playing:* Let the class imagine that it is a Senate Committee in March 1941 deciding whether or not to sponsor the Lend-Lease Bill. Various witnesses may be summoned to testify: a general, an admiral, the Secretary of State, a shipping magnate, a farmer, an America Firster, a representative of the British Government. After debating the issues, the Committee should vote for or against recommending the bill.
6. *Chart:* Ask a student to prepare a chart comparing the economic clauses in Wilson's Fourteen Points with their counterparts in the Atlantic Charter.
7. *Panel Discussion:* Organize a panel discussion to evaluate the contributions of the major powers—the United States, the Soviet Union, Great Britain and China—to victory in World War II. Ask the panel and audience to try to reach a consensus on the underlying economic and moral forces that were needed for a defeat of the Axis Powers.
8. *Committee Research:* Ask a committee of students to investigate and report on the outstanding scientific achievements and developments during World War II. Which one was potentially the greatest? How did World War II scientific developments ultimately raise living standards?
9. Conduct a general *class discussion* on inflation in wartime. Structure it around three major questions:
   (a) Why are wars usually accompanied by inflation?
   (b) How did the measures adopted by the Administration of Franklin D. Roosevelt help to control inflation during World War II?
   (c) Evaluate the success or lack of it of each of the measures in (b).
   (To make the discussion better informed, assign each of the following measures to individual students for research and presentation: heavier taxation, price ceilings, wage stabilization, rationing, expanded war savings (government bond) program, restrictions on instalment buying and use of credit, and rent control.)
10. *Analysis:* Read the Atlantic Charter, selecting the economic provisions for special study. Explain the purpose of each economic provision and show how its implementation would lead to a more stable peace.
11. *Interviews:* Ask the students to interview their relatives and friends for a first-hand account of economic conditions in the United States during World War II. Questions might touch on rationing, shortages, housing, jobs, overtime, etc.
12. *Graphs:* Ask the students to draw a line graph indicating the increase in the national debt between 1933 and 1953. Another line graph might deal with the changes in prices between 1929 and 1953.
13. *Filmstrip: Understanding International Trade* (McGraw-Hill) describes the advantages of international trade and the sources of balance of payments problems.
14. *Motion Picture: World Trade for Better Living* (20 minutes; Encyclopaedia Britannica) shows how foreign trade is beneficial to nations and stresses comparative advantage.

TOPIC 18

Postwar Recovery and Development

Economic Facts, Concepts, Principles or Problems

Marshall Plan
OEEC
Truman Doctrine
World Bank, IMF, GATT
G.I. Bill
The dollar gap
Trade agreements
Common Market
Taft-Hartley Act

THE surrender of Germany and Japan did not bring an end to the world's problems. First there was the task of converting to a peacetime economy; second, something had to be done about the millions of people facing starvation in other parts of the world; and third it was feared that communist influence and control would spread.

The fears that another Great Depression was impending were based upon the fact that 11 million men and women were being discharged from the armed forces, that some 20 million civilian workers employed in producing military goods were no longer needed, that thousands of government contracts for war materiel would have to be cancelled and that a declining demand for farm products would send agricultural prices plunging. As early as 1944, however, the government had started to plan for the postwar conversion. There would be unemployment insurance and job-creating public works projects for the workers, and aid to farmers if agricultural prices dropped. The G.I. Bill of 1944 provided unemployment insurance, schooling, and housing and business loans for veterans. It is interesting to note that the G.I. Bill not only helped to prevent a serious postwar unemployment problem, but helped schools and colleges to recover from the loss of students many had suffered during the war, enabled many people to get an education they could not otherwise afford (a factor that benefited all of society as well as the individuals being trained), and eased the way for the construction industry to convert to peacetime home building. Education is often seen as an *investment in human capital*, and the training received by veterans made them more productive. Thus, their incomes could rise and they could contribute more to the government in taxes. Economists estimate that the higher taxes paid by veterans who were educated under the G.I. Bill have actually repaid the government for the full costs of the Bill.

Consumer goods had been in short supply during the war,* and because it took factories time to convert to peacetime production the shortages continued for a while. Prices rose sharply between 1945 and 1948, as consumer demand was high and as rationing and price controls were quickly removed. Industrial plants reconverted to civilian output in a remarkably short time, although the housing and automobile shortages persisted into 1948. Congress failed to provide adequate controls to cope with inflation, and although the **Consumer Price Index** dropped a bit in 1949, it then began to climb again.

America's decision to aid war-stricken nations was a humanitarian gesture but also had economic implications. By helping other countries to recover we were helping ourselves by creating markets for our surplus goods. In 1946 and 1947 the U.S. provided $8 billion in food, medicine, clothing and other necessities. The Soviet Union was wasting no time in exploiting the misery of the war-torn countries, and when it seemed that Greece and Turkey might join the list of nations coming under communist control the **Truman Doctrine** was issued. Four hundred million dollars were obtained from Congress to fight communism in these two countries. Then, between 1947 and 1951 the **Marshall Plan** (the European Recovery Program) spent around $12 billion in loans and grants to help Europe recover from the war. Sixteen nations formed the Organization for European Economic Cooperation (OEEC) to cooperate with the U.S. in this effort. Trade increased, factories were rebuilt, and before the Plan ended Europe was not only back on its feet but was producing more than it had before the war. The seeds of European **economic unity** had been planted.

The Korean War which erupted in 1950 did not require the all-out mobilization of World War II, but an Office of Defense Mobilization was set up to control war production, procure military supplies, stabilize prices and control transportation. Wages and prices were to be partially controlled. However, our productive resources were already fully employed, so that government had to compete with consumers and businessmen. Consumer instalment buying doubled, and prices rose by about 13 percent.

*Actually, the output of civilian goods was larger during the war than before, but demand was very great.

The government tried to control this by requiring at least a 25 percent down payment, and limiting the remaining payment period to 15 months. At the height of the war, only 15 percent of U.S. output was being devoted to military needs, although we were paying the major part of the cost of that conflict. This is a good illustration of America's great economic potential.

After World War I, many nations had tended to seek their own interests and to think that they could enrich themselves at the expense of others. Recalling past failures of international economic cooperation, the Allied leaders during World War II took action to prevent the economic chaos of the 1930's. At a meeting in Bretton Woods, New Hampshire, in 1944, representatives of 44 nations established the **International Monetary Fund** (IMF) and the **International Bank for Reconstruction and Development** (World Bank). The IMF was to help nations having problems with their **foreign exchange.** Each member (and there are now over 100 member nations) would put in some of its own currency plus a certain amount of gold, the amounts depending upon the nation's wealth. Then, a member finding itself short of foreign exchange could borrow from the Fund. For instance, the French must have U.S. dollars to purchase American goods. If they were unable to earn enough dollars by selling French products to Americans, they could borrow dollars from the IMF. France would have to put francs into the Fund until the dollars were repaid, but the U.S. goods could be purchased and France would have a better chance of correcting any weakness in her economy that led to the problem in the first place.*

The **World Bank** was set up to help war-ravaged nations recover and to help poor countries to improve their economies. Members (usually the same nations belonging to the IMF) put in money in accordance with their wealth, and loans are made to needy nations. At first, most loans went to European nations for rebuilding, but now most are granted to the poorer countries of Africa, Asia and Latin America. The Bank had to be satisfied that projects were well-planned and would benefit the entire nation, and that the borrower would be able to repay. The Bank would also help to train the officials who would be responsible for the project, help with the technical aspects, see to it that efficient methods were used and that supplies were purchased as cheaply as possible, inspect the project periodically, and require progress reports. The Bank's cautious approach has prevented losses (indeed, the Bank has been making money), but some of the poorest nations have been unable to qualify for loans. Other agencies have been set up to help those who could not meet the Bank's high standards (the International Finance Corp. and the International Development Association), but they lack the resources to meet all the needs of the poor countries.

In 1947 the U.S. along with 22 other nations signed the **General Agreement on Tariffs and Trade** (GATT) to promote freer trade. (GATT now has over 80 members.) The members meet regularly to review trade policies, reduce tariffs, eliminate import quotas and apply the **most-favored-nation principle.*** Agreements are negotiated collectively rather than on a bilateral basis, and there is less chance that two or more nations will make mutually beneficial agreements that are harmful to another contracting party. All of the theories and principles of international trade can be reviewed in a classroom evalution of the effectiveness of GATT.

Other important international organizations are the **Common Market** (European Economic Community), the **European Free Trade Association** (EFTA), and the **Organization for Economic Cooperation and Development** (OECD). The latter, formed in 1960, was established by the U.S. and 19 other nations to discuss trade, economic growth and aid to the poorer countries. Although the U.S. is not a member of the Common Market or the EFTA, their creation was supported by the U.S. The Common Market, in particular, has become both a serious competitor and an important customer. How will the recent steps taken to expand the Common Market's membership affect the U.S. economy? This is an important question that might be analyzed by the class. The work of UNESCO, the Food and Agricultural Organization, and the World Health Organization should also be of some interest.

Among the important domestic problems that occupied American attention after World War II is the problem of labor-management relations. Previous labor legislation (such as the Wagner Act) should be reviewed. Many unions had taken "no-strike pledges" during the War and, although there were many disputes, little time was lost because of strikes. By 1945, union membership reached 15 million (less than three million belonged to unions in 1933). Feeling that business had been making high wartime profits while wages had been held down, many workers demanded higher wages as soon as the war ended. There were 4,750 strikes in 1945, involving 3,470,000 workers. Business complained that the Wagner Act had tipped the scales in labor's favor, and the public became alarmed over strikes in important industries. The result was the **Taft-Hartley Law** of 1947, which amended the Wagner Act to provide employers with certain protections. Unions were to refrain from using force or threats to make a worker join a union or participate in a strike; they could no longer refuse to bargain with employers, force management to hire more workers than needed, strike without giving a 60-day advance notice that they had a complaint, or insist upon a **closed shop** (where only union members may be hired). The National Labor Relations Board was now obligated to protect the employer as well as the worker from unfair actions, and a machinery was set up whereby government can interfere in important labor disputes that might threaten the public health or safety. Students might be asked to evaluate the Act in terms of its stated purposes, labor's

*Of course, this is an overly simple account of international exchange and the workings of the IMF. Consult a standard economics textbook for details.

*The most-favored-nation principle means that a concession granted to one nation must be granted to all other members. For instance, if the U.S. should lower its tariffs on German cameras it must also lower them on the cameras of other member nations.

charge that it was a "slave labor law," and management's hope that it would help to end damaging disputes. A value question that might be discussed is that of government's proper role in the process of **collective bargaining.** Government's involvement in labor affairs was extended further with the passage of the **Landrum-Griffin Act** of 1959, a result of Congressional findings that a few unions were being operated by gangsters. The Act requires that unions be democratically controlled and contains provisions for keeping dishonest persons from holding union office.

DISCUSSION QUESTIONS

1. The surrender of Germany and Japan did not solve the world's economic problems. In fact, it created additional problems
   (a) Discuss three serious international economic problems that were direct results of World War II.
   - **Relief and reconstruction of war-torn countries; reconversion to peacetime economy; spread of totalitarian communism.**

   (b) Describe some of the measures taken by *(1)* the United Nations, and *(2)* the United States to cope with these problems.
   - **UNRRA; Economic and Social Council; Marshall Plan; Point Four.**

2. Why did a serious postwar inflation occur in the U.S. between 1946 and 1950?
   - **Pent-up demand; removal of price-wage controls; cost-push inflation.**

   (a) How did the Truman Administration attempt to control inflation during the Korean War?
   (b) In what ways was the inflation that came during the Vietnam War similar to the inflation of World War II and the Korean War?
   - **Government spending and inflation; government efforts to control inflation.**

3. What is the Consumer Price Index?
   (a) How does the CPI measure the rate of inflation?
   (b) Compare the current CPI with the CPI of a previous year. What does it tell you about the cost of living?

4. Why did many Americans fear that a depression would follow World War II? Why did the United States escape a serious depression after World War II?
   - **Postwar depressions; business cycle; built-in stabilizers; fiscal and monetary policy.**

5. The G.I. Bill of 1944 was a piece of far-sighted Federal economic legislation.
   (a) State the principal provisions of the G.I. Bill.
   (b) How did the G.I. Bill *(1)* help to prevent serious unemployment, *(2)* aid the nation's colleges and universities, and *(3)* increase American productivity?
   (c) Why was the G.I. Bill considered an "investment in human capital"?

6. America's decision to aid war-stricken nations was a humanitarian gesture but also had economic implications.
   (a) Explain how the money spent by the U.S. on foreign aid (over $130 billion since 1945) benefited both the giver and the receiver.
   (b) Why has foreign aid been severely criticized in Congress in recent years?
   - **Economic development; international trade and exchange; foreign markets.**

7. Explain the purpose and provisions of the Truman Doctrine. To what extent was it a success? Justify your answer.
   - **Foreign aid; economic development; economics and diplomacy.**

8. What was the Marshall Plan?
   (a) Why did the U.S. offer to help Western European countries to help themselves?
   (b) Describe the principal achievements of the Marshall Plan.
   (c) Show how the Marshall Plan helped plant the seeds of European economic unity.
   (d) Why did the Soviet Union oppose the Marshall Plan?
   - **Economic aid; economic development; Schuman Plan, Euratom, Common Market.**

9. The European Common Market may be the forerunner of the United States of Western Europe.
   (a) Describe the European Common market.
   - **Specialization and exchange; free trade; economic unity.**

   (b) Why did Britain and several other countries show a desire to join the Common Market in the early 1970's?
   c) Discuss the possible effects of the Common Market on the economy of the U.S.
   - **Foreign competition; foreign investment; foreign markets.**

10. At Bretton Woods, New Hampshire, in 1944, the United Nations made an effort at international economic cooperation by creating the World Bank and the International Monetary Fund.
    (a) How has the World Bank promoted reconstruction and development in the past quarter century?
    - **Economic development and growth; capital.**

    (b) How does the International Monetary Fund function?
    - **Balance of payments; foreign exchange; the dollar and gold in world trade.**

(c) Why do underdeveloped nations sometimes criticize the World Bank's policies?

(d) In spite of the existence of the World Bank and the IMF, a world financial crisis occurred in 1971. How can this be explained?

- **Balance of payments; international trade and exchange; dollar and gold in world affairs; rates of exchange; strong and weak currencies; supply and demand applied to foreign exchange.**

11. An effective agency in restoring vigorous world trade has been the General Agreement on Tariffs and Trade (GATT), established in 1947.
    (a) What was the purpose of GATT?
    (b) Why does GATT apply the "most-favored-nation principle"?
    (c) Do you favor free trade or protection in regard to imports of textiles, cars and electronic equipment? Justify your answer

12. Explain the roles of F.A.O., UNESCO and W.H.O. in achieving one of the aims of the United Nations Charter—"to promote social progress and better standards of living."

13. Many strikes occurred immediately after the end of World War II. Why did this happen?
    (a) Discuss the possible effects of serious labor-management disputes on the public and on the economy as a whole.
    (b) How did the Taft-Hartley Act of 1947 attempt to deal with the problem of strikes?
    - **Distribution of income; wages and working conditions; government's role.**

14. Employers saw the Taft-Hartley Act as a long overdue measure needed to correct the "abuses" of union power, while labor leaders contended that it violated American traditions of freedom and "enslaved" the workers. With which point of view do you agree? Give your reasons.
    (a) Describe the role of the Federal government in maintaining labor peace under the Wagner Act. How was this changed by the Taft-Hartley Act?
    (b) How do the Taft-Hartley and Landrum-Griffin acts show a change in the Federal government's attitude toward organized labor?

15. Which of the following laws received the approval of organized labor? Which did unions oppose? Why? (a) Wagner Act; (b) Fair Labor Standards Act; (c) Social Security Act; (d) Taft-Hartley Act; (e) Landrum-Griffin Act; (f) "right-to-work" laws.
    - **Distribution of income; collective bargaining; minimum wage; social insurance; government's role in the economy.**

16. A problem constantly facing our legislators is that of enacting laws that promote the welfare of the people without at the same time seriously curtailing the fundamental freedom of the individual. Show how legislatures faced this problem when considering the following: (a) fair employment practices; (b) right-to-work laws; (c) antitrust laws; (d) minimum wage laws; (e) environmental legislation.
    - **Distribution of income; collective bargaining; monopoly; wage theories; conservation.**

ACTIVITIES

1. *Then and Now:* In order to demonstrate the progress labor in the United States has made in the last century or so, ask the students to present then-now reports on the following topics:
   Wages and fringe benefits
   Hours and vacations
   Health plans
   Employment of women and children
   Retirement benefits
   Legality of union activities
   Collective bargaining
2. *Individual Research:* Ask several students to analyze why some large national unions remain outside of the AFL-CIO.
3. *Role-Playing:* Transform the class into a Congressional subcommittee dealing with a bill to approve an additional $3 billion for military and economic aid to countries in Southeast Asia. Witnesses asked to appear might include a general, a lobbyist, a representative of an antiwar group, a Vietnam veteran, a munitions maker, an ambassador from one of the countries involved. After a general discussion, let the committee vote either to recommend or to kill the bill.
4. *Time Line:* Ask the students to draw a time line indicating the major economic and political measures inaugurated by the United States during the Cold War Period (1945-1965).
5. *Classroom Reference Corner:* Class and teacher can cooperate on establishing a classroom reference corner on labor. For the purpose, collect pamphlets, newsletters and books for a small shelf of publications on labor history, labor's goals and labor's problems. Three "must" items might be:
   U.S. Labor Department's—*Short History of the Labor Movement*
   Starr's—*Labor and the American Way*
   Seaver's—*Industry in America*
6. *Bulletin Board Display:* Ask the students to make a "Yesterday—Today" bulletin board display on Farming in the 20th Century. Pictures, drawings, graphs, etc. can be used to show the change that has occurred since 1900. Other suggestions include a bar graph

showing the percentage of the urban population as compared with the rural population by decades since the turn of the century and a pictograph showing the number of people a farmer could feed in 1900, 1920, 1940, 1950, 1960 and today.

7. *Student Reports:* Ask individual students to do library research and report on the following topics:
   The Postwar Atomic Race
   The Policy of Containment
   The Truman Doctrine
   The Point Four Program
   NATO
   Successes and Failures of the United Nations
8. *Role-Playing:* Organize the class as a Congressional Committee hearing advocates for restricting abuses of some labor unions prior to the passage of the Landrum-Griffin Act. In setting up the session, ask some of the members of the class to familiarize themselves with the attitude and arguments of the unions, some with employers, and some with the public at large.
9. *Debate:* Resolved: That right-to-work laws be repealed.
10. *Speakers:* Invite a local union leader to class to answer questions and to present the views of organized labor on pertinent current legislation before Congress. At the same time, or on the succeeding day, ask a representative of management to do the same thing from his point of view.
11. *Graph:* Ask the students to illustrate the extent of post-World War II inflation by indicating the increase in prices between 1933 and 1953.
12. *Essay:* Ask the students to do library research and then write an essay on "Economic Conditions in the United States during the Korean War." Urge them to emphasize governmental actions to control inflation during this period.
13. *Map:* On an outline map of Europe, ask the students to indicate by different shading or color the countries helped by the Marshall Plan and the Truman Doctrine. The countries behind the "Iron Curtain" should be labeled also.
14. *Sound Filmstrips:* Show selected reels of *The 1940's* and *The 1950's,* a series of color filmstrips in the American Decades Series (International Film Bureau) which survey political and economic patterns, science and technology, the struggle for human rights and cultural developments for the period under study.
15. *Motion Picture: Inflation* (20 minutes; Encyclopedia Films) describes the causes of the inflationary spiral during the immediate post-World War II period and suggests fiscal policies to curb price rises appropriate at that time.
16. *Motion Picture: The European Economic Community* (14 minutes; Coronet) tells the story of the development of the European Economic Community, its purposes and accomplishment through 1965.
17. *Motion Picture: Mr. Europe and the Common Market* (60 minutes; Carousel). Mr. Monnet ("Mr. Europe") describes how the Common Market will, by removing trade barriers, make possible an international flow of men and goods that will add to productivity and lead to a higher level of living in Western Europe.

TOPIC 19

The Rise of New Nations

Economic Facts, Concepts, Principles or Problems

Underdeveloped economies
The vicious circle
Overpopulation and other problems
Foreign aid and investment

MANY new nations have made their appearance since World War II. Some, such as India, were giants at birth; others were small both in terms of population and geographic size. Freedom from foreign control, however, did not assure economic independence. Many lack the resources even to provide for the minimal needs of their citizens. Some have an abundance of land and natural resources but do not have the technical "know-how" to be able to exploit those resources efficiently.

There is no universally accepted definition of "emerging nation" or "underdeveloped area," but most which have been so classified are clearly suffering from a low level of living. Among the typical conditions are a short life expectancy. For example, the life expectancy of a female in Pakistan is about 49 years, while that of an American female is 74 years. Pakistan's infant mortality rate is over five times that of the U.S. In the United States there is one physician for every 670 people, as compared with one for every 6,200 in Pakistan.* Illiteracy rates as high as 95 percent, miserable living conditions, poor roads, few schools and hospitals, and shortages of skilled workers are common. About 70 percent of the world's people live in countries that can be classed as "poor" or "underdeveloped." Some typical conditions are described below.

Overpopulation is often a problem. In South Korea the **population density** is over 800 per square mile, as compared with less than 60 in the U.S. (It should be noted, however, that a high population density does not *per se* imply poverty, nor does a low density guarantee wealth. The important factor is population in relation to the nation's productive resources.) Students should realize that the U.S. was once an underdeveloped nation (and some parts of the country may still be considered underdeveloped), and it would be interesting to have them contrast the problems we faced as a new nation with those of the new nations of today. For instance, the new United States had a small population and a huge land base with abundant natural resources. Many of the new nations of the post-World War II period have large populations on a small land base with relatively few resources. The population growth rate must be taken into account when examining the GNP of a nation. The GNP should be divided by the population to get *per capita* GNP. Thus if the new nation's GNP is growing at a six percent rate, but its population is growing at a 10 percent rate, it is actually becoming poorer, not richer.

Lack of natural resources is often a problem. The U.S. is one of the world's leading nations in terms of the amount and variety of resources, while many of the new nations have few resources and little variety. Too often they must rely upon the sale of one or a few products for their economic well being. If the world market for their output declines, their economies can collapse.

Capital is often in short supply, the underdeveloped areas having only about $\frac{1}{20}$ of the capital owned by the richer nations. Without modern tools, machinery and factories, industrial production cannot be great and the new nation cannot hope to compete with Japan, Germany, the U.S. and other developed states. To have capital there must be savings. That is, people must be willing and able to defer consumption so that **capital investment** can occur. In countries where the per capita income is so low that every penny earned by the average person is spent immediately on consumer goods, there can be little capital investment. In many cases the handful of rich people who do have savings either choose to spend their money on luxury imports or to invest it in developed nations where the risk is low and the potential returns are high. Indeed, in some poor countries the **net capital formation rate** has been less than zero. That is, the existing **stock of capital** (factories, machines, tools, etc.) is wearing out faster than it is being replaced.*

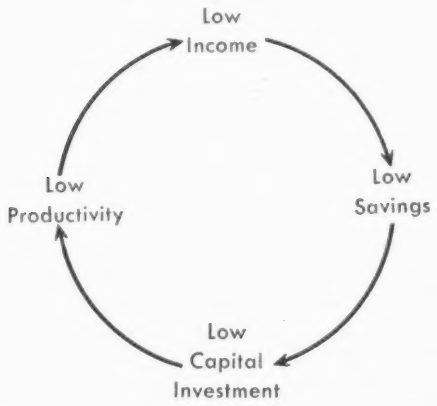
Social capital is also scarce. Roads, bridges, tunnels, harbors, airports, schools, power plants, and water supply facilities are needed. Industry needs many of these in order to produce goods and services. (There is little point in locating a factory in an area where there is no power and

*The figures given here are for Pakistan before East Pakistan became the independent republic of Bangladesh. See *Oxford Economic Atlas of the World,* fourth edition (New York: Oxford University Press, 1972).

*The Gross Capital Formation Rate is the percentage of GNP accounted for by capital investment. If our GNP were $900 billion, and $90 billion of this were spent on capital formation, then the GCF would be 10 percent. But some capital goods are being produced to replace old, obsolete or worn-out capital items. Thus, we deduct this depreciation from the gross capital formation figure to get net capital formation. If $45 billion worth of existing capital is obsolete or worn out and being replaced, then, the NCF (Net Capital Formation Rate) is five percent.

no roads for moving goods in and out.) But the prospects for operating these facilities at a profit are often nil, so private businessmen do not invest in them. Thus, governments must often try to provide this social overhead capital.

The shortage of capital is part of one of the **vicious circles.** When the nation's income is low (and personal incomes are low) the level of savings will be low. When savings are low there will be little capital investment. With low capital investments there is a shortage of modern plants, equipment and technology, and thus **productivity per man-hour** will be low. Low productivity, in turn, implies low income—and we are right back where we started from. The situation is diagrammed below.



Related to the economic problems are political and cultural factors which tend to aggravate them. Weak governments, political unrest and inefficiency discourage foreigners from investing in the newer nations, although foreign investment is often desperately needed to break the vicious circle and provide essential capital. Foreign businessmen often fear that their properties will be seized or that a weak government will not be able to protect them. The few citizens who do possess savings may be impelled to send their money abroad for safe-keeping or for safer investments in the industralized nations of Europe and North America. (This is called a "flight of capital.") Cultural factors which sometimes impede economic progress are caste systems, sectional and tribal animosities, linguistic and religious differences which prevent real national unity and communication, and adherence to outmoded traditions. For example, in one of the poorest African nations agriculture, trade and manufacturing have been regarded as low-caste occupations (the raising of livestock being the only respectable pursuit), although the country badly needs these. In another, there are some 48 different tribal groups, many with different religious systems, languages and cultural habits. The rich may send their children abroad to study in foreign universities, but too often they obtain degrees in fields which give them high prestige but have little practical value at home. Thus, there is frequently an absence of a middle class made up of technicians and tradesmen. A few rich families at the top control the government, refuse to raise taxes on themselves (although they are the only ones capable of paying higher taxes), block attempts at land redistribution, and in other ways fail to take steps necessary for economic development. The great masses of the poor at the bottom are prevented from rising by caste barriers or lack of educational facilities.

The gap between the rich and poor nations has been getting wider.* Between 1960 and 1970 the total **per capita output** of the developed nations rose by 43 percent, while that of the poor countries increased by only 27 percent. (Note that these figures do not reflect the great disparity between the developed and the underdeveloped, because the latter were starting from a much lower base. For example, a nation with a per capita income of $1000 in 1960 would have enjoyed an absolute increase of $430 if its per capita income rose 43 percent during the decade, while a nation which had a per capita income of $100 would show a rise of only $27 in absolute terms if its per capita income went up by 27 per cent In any event, regardless of how we look at it the gap is growing wider.) Because of the gap, and because so many of the underdeveloped areas lack the resources, technology and know-how to cope with their economic problems, it is widely believed that aid from the richer countries is absolutely necessary. Of course, there are differences of opinion on how much aid is needed, what form it should take, how it should be administered, who is responsible for providing assistance, and the like.

At least until a healthy rate of **real growth** is established and the most pressing needs are met, most of the newer nations will probably have to provide for greater government involvement in the economy than would be generally accepted in the U.S. First, they must find out what resources they already have (the lack of reliable statistics is appalling in many cases), what their problems are, and what reasonable short-term and long-term goals they can adopt. An economic plan can then be drawn up. It will spell out the means by which the goals are to be achieved. All sectors of the economy should be expected to cooperate (in India, for example, private industry and government have worked together); social reforms should be made to end caste systems and bring about a more equitable distribution of land and income where necessary; foreign investment might be encouraged through guarantees against discriminatory taxation, expropriation and property damage; the educational system must be geared to the nation's most basic needs; a sound system of money and banking has to be established and maintained; social overhead capital must be developed rapidly; and, where overpopulation is a problem, some means of controlling population growth can be implemented.

Two points mentioned above merit further discussion. A sound system of money and banking is needed not only because this in itself facilitates economic exchange and development, but to control inflation. Inflation is often a serious problem in the developing nations. Ironically, the attempt to speed development can lead to rising prices.

*The education gap is also very wide. In 1972 it was reported that 98 percent of the children of primary-school age in North America were enrolled in schools, while in Africa the percentage enrolled was only 40 percent. For secondary-school age youths, the figures were 92 percent and 15 percent respectively; and for college-age people 44.5 and 1.3 percent respectively. (Source: *New York Times*, October 2, 1972.)

Workers are required for needed long-term projects, such as roads. Their newly earned wages are often spent immediately for consumer goods (in technical terms, they have a "high marginal propensity to consume"), but the output of consumer goods has not kept pace so prices go up. If workers have been drawn from agriculture, prices of food may rise because the loss of farm workers may mean a reduced supply or higher unit costs of production. The inflation can then feed upon itself as people spend their money faster in the hope of beating the rising prices. Meanwhile, the rich put their money in gold, jewelry or real estate instead of capital goods, because the value of these items will rise along with the general price level. Some may engage in speculation, put their funds in foreign banks or buy foreign securities. The workers will demand even higher wages, adding a "cost-push" inflation to the already existing "demand-pull." If the government resorts to printing more money to satisfy these demands, a run-away inflation ("hyperinflation") may result.

Population control is needed where population growth outruns the rise in GNP. (By mid-1970, population in Latin America was increasing at a rate of 2.9 percent a year, as compared with only 0.8 percent in Europe.) In some areas, the Malthusian Law seems to be at work—population tends to increase by geometrical progression while the food supply increases in arithmetical progression. That is, population doubles itself about every 25 years: 1 to 2; 2 to 4; 4 to 8; 8 to 16; and so on. Meanwhile, the food supply goes from 1 to 2; 2 to 3; 3 to 4; 4 to 5; 5 to 6; and so on, during the same period. For every nation there is an **optimum population**—the "just right" population size at which real per capita income is highest. In our early years, the U.S. was below the optimum, for the population was too small in relation to other resources. As our population grew we could engage in greater labor specialization, there was a more efficient mix of workers with the other productive resources, output per man-hour rose, and the real GNP per capita climbed. When a nation's population goes beyond the optimum, however, the **law of diminishing returns** takes effect, for each new worker has fewer capital goods and materials with which to work. Population grows faster than the nation's capacity to produce, and the average person must accept a smaller slice of the national pie. (Of course, the optimum population figure is always changing. New technology, new sources of raw materials and additions to the stock of physical capital could make it possible to support a larger population than before, for example.)

Aid to the poor nations can take the form of grants of money, loans, gifts of capital goods, technical assistance (such as Truman's Point Four Program), special trade concessions, and others. United States government aid to foreign nations has totalled well over $140 billion since 1945. Although altruism was definitely one motivation for U.S. aid, and although it accomplished a great deal, critics have charged that much of our aid has been politically motivated (that is, has been used to "buy" the friendship of others in the Cold War), that too much has gone for military as opposed to economic assistance (about 28 percent of total aid), that the impoverished nations of Africa and Latin America have received much less than the relatively wealthy nations of Europe, and that some programs (such as the Alliance for Progress) have fallen far short of expectations. The class might examine these and other criticisms, attempt to determine the benefits that have been derived from foreign aid (for the donor as well as the recipient),* and decide what U.S. aid policy should be. The amount of aid given in U.S. dollars should be computed as a percentage of GNP and compared with similar figures for other donors, such as France, the United Kingdom, Germany and Japan. In recent years the U.S. has been giving less than one-half of one-percent of its GNP, while some other nations have been giving more.† Some believe that all the developed nations should contribute substantially higher amounts, and that aid should be channelled through the United Nations so that it will be used solely for economic development and not for political or diplomatic advantage. This, too, should be a subject for classroom discussion.

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*Supporters of aid argue that the donor stands to benefit by the fact that the recipient will become a better customer for the donor's goods and a more stable source of raw materials.

†In 1971, U.S. aid was .67 percent of GNP, while the Netherlands gave 1.63 percent, the United Kingdom 1.14 percent, and France 1.02 percent. It might also be noted that development assistance programs of the industrial countries and multinational institutions have been shifting from straight aid grants to loans and credits. The external debt of the developing countries has climbed from less than $40 billion in 1965 to nearly $67 billion in 1971.

DISCUSSION QUESTIONS

1. How would you define an "emerging nation" or "underdeveloped area"?
   - **Low productivity; low living standards; low per capita income.**
   (a) Where are most of the world's emerging nations located?
   (b) Discuss the economic and social characteristics of underdeveloped areas.
   - **Lack of capital, technical know-how, savings and investment; unrestrained population growth, shaky governments, social customs which hamper development.**

2. What is meant by "vicious circles of poverty"?
   (a) Explain how this applies to developing nations today.
   (b) What can be done to break through the vicious circles?

3. What are capital goods? Why are they important?
   (a) Why is saving necessary in order to create capital?
   - **Savings and investment; capital formation.**
   (b) How do capital goods contribute to economic growth.
   - **Productivity.**

4. Why is the rate of capital formation lower in underdeveloped than in developed areas?
   - **Lack of savings; "flight of capital."**
   (a) What is the difference between the gross capital formation rate and the net capital formation rate?
   (b) Why is the net capital formation rate in some poor countries actually less than zero?

5. Why is it difficult for emerging nations to attract capital investment? What can they do to encourage foreign investment?

6. What is meant by social capital (or social overhead capital)? Why is social capital necessary for economic growth?

7. Why is inflation often a problem in developing nations?
   - **Supply and demand; high propensity to consume; costs and output.**
   (a) How does inflation hurt a nation's position in world trade?
      - **Rising prices deter sales in export markets.**
   (b) How can governments in emerging nations control inflation?
      - **Monetary and fiscal policies; controls; increased productivity.**

8. Discuss some of the social and cultural factors that block or retard economic progress in a developing nation such as India. What steps can a nation take to overcome these obstacles? What has India done, for example?

9. Why is the gap between rich and poor nations getting wider?
   - **Lack of resources, technology, education, stable markets.**
   (a) Why do many believe that the richer nations must help the poorer?
   (b) What forms can economic aid take?
      - **Grants and loans; gifts of capital items; technical assistance; trade concessions.**

10. Why do most developing nations make greater use of government planning for economic development than does the U.S.?

11. Compare and contrast the problems faced by the United States as a developing nation in the 19th century with those encountered by emerging nations in the 20th.
   - **Consider population, foreign investment, resources, technology, political stability, etc.**

12. In his 1949 Inaugural Address, President Truman advocated a "bold new program," which became known as Point Four, to use American scientific and industrial "know-how" to aid underdeveloped nations.
   (a) How did Point Four operate?
   (b) To what extent did the Point Four program succeed? What accounts for this?

13. Evaluate the nature and extent of American and Soviet economic aid to developing nations since World War II ended.

14. Which of the following is the greatest need of the developing areas today? (a) More capital; (b) more native entrepreneurs; (c) trade; (d) agrarian reforms; (e) population control. Defend your point of view.

15. What is the relationship between population and economic growth?
   (a) Why is the population growth rate taken into account when examining a nation's GNP?
      - **Per capita GNP; real growth.**
   (b) Why do some economists say that the Malthusian Law of Population is at work in underdeveloped areas today?

16. Why is American foreign aid often criticized today?
   (a) How does aid help the donor as well as the recipient?
   (b) Would it be better to funnel all economic aid through the United Nations? Why or why not?

17. If you were the Minister of Economics in a developing country, what policies would you adopt to stimulate growth in your country?

18. Although Puerto Rico raised its living standard and promoted growth through Operation Bootstrap, most Latin American countries have made only slow and painful gains under the Alliance for Progress. How do you account for the differences?

19. How did the Cold War affect the interest of the U.S. and the U.S.S.R. in economic growth?

20. If President Nixon's 1972 visit to the U.S.S.R. laid the groundwork for mutual understanding between the world's two great powers, would this remove the need and desire for economic growth? Explain your answer.

21. "The outlook is bleak indeed for two-thirds of mankind. While some developing nations will graduate to the ranks of the developed, many—perhaps most—are doomed to remain dropouts in this important race." Discuss this statement.

ACTIVITIES

1. *Personal Letter:* Write an imaginary letter to your parents describing a visit to one of the following places:
   a school conducted by the Peace Corps in Tanzania
   a rice farm in the Philippines growing "miracle rice"
   a typical peasant village in India
   The letter might include references to such things as food eaten, clothing worn, equipment used, family life, wages earned, recreational life, etc.
2. *Chart:* Design a chart to compare the problems faced by an underdeveloped nation with those faced by the United States to stimulate economic growth.
3. *Map:* On an outline map of the world, indicate in color

the areas of the world in which most of the underdeveloped countries of the world are located. Explain *why* these areas are underdeveloped.

4. *Committee Report:* Organize a committee to draw up an economic plan for "Newlandia," a developing nation. Ask each member of the committee to research one of the following ingredients in economic growth to improve the quality of the discussion: (a) a skilled, healthy, educated labor force, (b) willingness on the part of the people to save and invest their money, (c) entrepreneurship and the spirit of innovation, (d) improved technology, plant, equipment, know-how and resources, (e) a stable government friendly to business, and (f) infrastructure or social capital (schools, hospitals, banks, railroads). After thorough discussion, the committee should draw up a brief report.
5. *Chart:* Make a chart summarizing four methods of financing capital formation in an underdeveloped economy. In a second parallel column of this chart, indicate the limitations on each of these four items.
6. *Panel Discussion:* Organize a panel discussion on Barriers to Economic Growth in Underdeveloped Lands. To ensure informed discussion, assign each of the following items to a member of the panel: (a) lack of capital and technical know-how, (b) lack of savings and investment, (c) lack of infrastructure or social capital, (d) unrestrained population growth, (e) under- or overpopulation, (f) unstable government unaware of the needs of business. Ask the chairman of the panel to summarize the discussion.
7. *Graph:* Using information in an almanac like *The Official Associated Press Almanac*, construct bar graphs of the per capita income in six developed and six underdeveloped lands. Explain the differences.
8. *Floor Talk:* Ask a student who has traveled in an underdeveloped nation in Latin America or another part of the Third World to talk about his observations of living conditions and the aspirations of the people of the country he is describing. Have the class identify the economic principles which apply to the situation.
9. *Oral Reports:* Ask the students to do library research and report to the class on one of the following topics:
   - The Revolution of Rising Expectations
   - Operation Bootstrap—Puerto Rico
   - United Nations Technical Assistance to Developing Lands
   - The World Bank and the Developing Nations
   - The Green Revolution
   - The Point Four Program
10. *Library Visit:* Ask the school librarian to present a talk on pictorial material, periodical literature and books available on the underdeveloped lands. Follow her talk by a browsing session. On the following day, a discussion of findings can take place.
11. *Bulletin Board Display:* Ask a committee to plan a bulletin board display on the Third World. Include pictures, maps, student-made tables, charts and cartoons which indicate the problems and aspirations of the developing countries.
12. *Panel Discussion:* Organize a panel discussion on the Strengths and Weaknesses of the American Foreign Aid Program. To make the discussion better informed, have each panel member research the contributions and the shortcomings of foreign aid in a particular country. Sources: *Readers Guide to Periodical Literature, Annual Report of the World Bank*, and *Economic Report of the President*.
13. *Game:* "Development" (Science Research Associates). Development simulates relations between the developing nations of the world and two major powers that compete, partly through foreign aid, for the loyalty of the developing countries. Level: Junior and Senior High School. Playing time: 2-4 hours. Number of players: 25-35.
14. *Filmstrip: Feeding the World's Peoples* (42 frames, B&W—Current Affairs Films, 1966) discusses the problems posed by population growth, especially in underdeveloped countries.

TOPIC 20

Competing Economic Systems

Economic Facts, Concepts, Principles or Problems

Capitalism
Socialism
Communism
Mixed economies

WHEN Nikita Khrushchev threatened to "bury" the United States, he was not referring to a military assault, but to economic supremacy. He implied that the world would adopt the **communist economic system,** and that communist nations would have greater economic growth rates and higher levels of living than capitalistic countries. So far, the record shows that the United States has little to fear. Americans still enjoy the highest standard of living on earth, the nation has managed to carry on a major military action in Southeast Asia without sacrificing many civilian luxuries, and the rate of **real growth** has been healthy. With less than six percent of the labor force engaged in agriculture, the U.S. not only produces all the food it needs but has a surplus besides, while in recent years the Soviet Union has had as many as 39 percent of its workers in agriculture and Communist China has had as many as 87 percent. The U.S. GNP has been about double that of the U.S.S.R. Per capita use of energy (one good indicator of living standards) in the U.S. in 1970 was more than two-and-a-half times that in the Soviet Union. Such consumer goods as eggs, beef, milk, tea, cigarettes, soap, suits, dresses, shirts and nylon stockings are much more expensive to the Russian than to the American (that is, they must work much longer to be able to buy such things—ten to 15 times as long, in some cases), but some services such as medical care are considerably more expensive in the U.S. On balance, however, the American enjoys a much higher **level of living.** The U.S.S.R. devotes a smaller percentage of its GNP to consumer goods and a greater percentage to capital investment. The overall gap between the two nations is great, but in some things the Russians have surpassed us.

Attempts to establish the superiority of one economic system over another are difficult. Because nations differ in terms of population, availability of natural resources, status of technological development and average level of education (among other things), it is hard to say how much of one nation's superiority can be attributed to its system and how much to advantages in resources and other factors. Some have a strong philosophical commitment to one system, such as capitalism, and feel that it is best for everyone. Others argue that the system that is best for one nation may not be suitable for another because of differences in their resources, stage of development and problems.

Capitalism (also called free enterprise, the market economy, the price system, the profit system and the like) means that most productive resources are privately owned and controlled. With few exceptions, government does not tell businessmen how much to produce, to whom they can sell their output, or what they should charge. Producers hope to cover all costs and have enough left over for profit. Consumers help to guide and direct economic activity by showing their willingness (or lack of it) to buy certain products. If they want snowmobiles they will offer high prices for them, and business will soon get the message. Productive resources will be shifted into the output of snowmobiles if profits are high in that industry. If the consumers' demand for snowmobiles becomes satisfied, sales will drop, prices will probably skid and profits will be replaced by losses. Businessmen will now shift their resources to other products which the consumer wants. There is no overall economic plan. Basic economic decisions are made by the interaction of consumers seeking to buy at the lowest price and producers trying to sell at the highest.

In **communism,** the important economic decisions are made by a central authority. Government may decide that there will be more tractors and fewer pleasure cars. The factors of production will be owned and/or controlled by government People may be able to own certain basic consumer goods, but the government will have a powerful influence on the distribution of those goods. If private ownership of automobiles is to be discouraged, this can be done by keeping the supply low and the price high, or even by outright rationing. (In an extreme communist economy, even basic consumer goods can be considered publicly owned—the individual is simply using commodities which theoretically belong to everyone collectively.) Communist nations usually have an **economic plan,** such as the *Gosplan* of the U.S.S.R. Each year, leaders of government, the armed forces and industry set economic goals and formulate a plan for deciding how much steel, iron ore, electricity and so on will be needed to meet the goals. Every farm, factory and mine becomes part of the plan and receives a certain amount of labor, machinery and raw material. Each will be expected to produce a minimum amount. It is charged that this leads to inefficiency, because managers may ask for more productive resources than they need in order to fill their output quotas, and may set their goals too low in order to be sure that they meet them. On the other

hand, supporters of this system claim that it is "depression-proof" because the plans guarantee full employment, thus avoiding idle labor, unused plant capacity and other wastes that occur during recessions in capitalist countries.

Socialism is more difficult to define. It is sometimes seen as a system falling between the extremes of capitalism and communism, and as such it can take many forms. Some use the term synonymously with communism, while others assert that communism is simply one form of socialism. In practice, many nations which consider themselves to be socialist have a system in which only the major means of production are owned by the government. This might include very large and important industries (such as steel), mines, banks, railroads, and communication industries.* Most factories producing consumer goods (such as clothing or furniture) would be privately owned and under little or no close control. Examples of socialist countries (at least according to this rather loose definition) are Britain, India and Sweden. The U.S.S.R. and Communist China could be classified as communist nations, according to the above definition.

Political systems are sometimes confused with economic structures. In theory, any kind of political system can coexist with any kind of economic system. A capitalist economy is no guarantee of political democracy, although the two seem to go well together at least in the United States. Some nations which have socialist economies are democracies, as in the cases of Britain, India and Sweden. Political democracy is lacking in others and in the nations we have classified as communistic. It does seem that a certain amount of political freedom must be sacrificed, as a practical matter, as a nation's economy becomes more and more collectivized. Decisions on the distribution of wealth, when made by a public authority, must often be backed by force.

Today we often use the term **"mixed economy"** to refer to current systems. Although private ownership prevails in the United States and major decisions are still made in the free market, there is a considerable amount of public ownership (highways, public schools, the TVA, for example) and frequent interference by government in the economic process. Regulatory agencies such as the Interstate Commerce Commission, the Securities and Exchange Commission, and the Federal Trade Commission have been on the scene for decades. Social security, welfare payments, minimum wage laws, farm subsidies, price controls and government interference in labor disputes are other examples of modifications of the purely free enterprise system. In the Soviet Union, on the other hand, some small businesses are owned by individuals, farmers sometimes own small plots of land and they may sell their produce, and a modified profit system has been adopted in several thousand enterprises.

Another common way of categorizing economic systems is to refer to them as **traditional, command** or **market economies.** Such things as religion, custom and habit may be the major factors in making economic decisions in the traditional economy. For example, the production of certain goods and services may be limited to particular castes, and outmoded techniques may be retained because "we've always done it that way." In the command economy decisions are made by a central authority. The basic economic questions of what to produce, how much, by what means and for whom are answered by government. The market economy is basically the free enterprise system briefly described above.

The study of comparative economic systems is difficult because it is hard to separate purely economic considerations from political, philosophical and even religious feelings. Capitalism, socialism and communism are emotionally charged words, meaning vastly different things to different people. It is imperative that the teacher insist upon clear definitions whenever these words are used, and that some sort of operating definition be agreed upon for classroom use. As much as possible, an objective, scientific, unemotional and analytical approach should be employed. Values can be considered, of course, in the study of comparative economics, but both teacher and student must be sure to differentiate between knowledge and belief, between fact and supposition, and between scientific analysis and philosophical commitment.

*When the British Labour Party was in power between 1945 and 1951 they placed only about 20 percent of England's economy under government ownership or control.

DISCUSSION QUESTIONS

1. Capitalism differs the world over.
   (a) How would you define American capitalism in the 1970's?
   • **Mixed economy; government's role.**
   (b) Define each of the following institutions of capitalism and mention the restrictions that society places on each: (a) Freedom of enterprise; (b) private property; (c) competition; (d) profit motive; (e) free market; (f) the "invisible hand."
2. How do you account for the fact that the American GNP is about double that of the U.S.S.R.?
   • **Stages of economic development; productivity; profit incentive.**
3. Explain why the American economy is called consumer-oriented.
4. Contrast the role of labor unions in the United States with unions in the U.S.S.R.
5. How do you account for the fact that the standard of living is higher in the United States than in the U.S.S.R.
   • **Per capita income; productivity; profit motive; economic freedom; role of unions.**

6. "A capitalist economy is no guarantee of political democracy, although the two seem to go well together at least in the United States." Explain.

7. Critics of our economic system say that major economic decisions in the U.S. are made by comparatively few individuals. Do you agree or disagree? Why?
   (a) Why is the concentration of economic power possible?
   (b) Can the same criticism be made of other economic systems, such as that of the U.S.S.R.?

8. How are resources allocated in the United States? In the U.S.S.R.?
   (a) How are prices determined in the U.S. (generally) as compared with the U.S.S.R.?
   (b) In which country are prices most likely to reflect costs of production? Why?
   - **Market vs. command economy.**

9. Although the basic economic problem—allocating scarce resources among competing wants—is the same in both countries, economic planning in the United States differs greatly from planning in the Soviet Union.
   (a) How is economic planning carried out in the U.S.S.R.?
   (b) How does economic planning take place in the United States?
   - **Private enterprise; market forces; some firms make long-range plans; modest amount of government planning and cooperation between government and private enterprise.**

   (c) How does the free competitive market accept or reject the many individual private business plans in the United States?
   - **Supply and demand; profit and loss; market prices; competition; consumer's role.**

   (d) Why do the Soviet planners argue that their system is "depression-proof"?

10. Why have the Russian planners emphasized heavy industry?
    - **Capital formation and productivity.**

    (a) How do high rates of capital formation help to speed up industrialization?
    (b) How has the comparative backwardness of Soviet agriculture retarded the Soviet Union's plan to become the leading industrial nation?

11. How does socialism differ from capitalism?
    (a) Evaluate the major socialist criticisms of the capitalist system.
    (b) Why are socialists especially critical of income distribution under capitalism?
    - **Poverty problem; discrimination in employment; unearned increments.**

12. How are communism and socialism alike? How do they differ?

13. How does a traditional economy differ from a command economy? How does a market economy differ from both? Which system do you prefer? Why?

14. One of the handicaps of underdeveloped countries has been an insufficient supply of entrepreneurial talent.
    (a) What is an entrepreneur? How does he (or she) contribute toward production?
    (b) Do communist countries need entrepreneurs? Explain your answer.
    - **Role of innovators, risk-takers and organizers — the individual entrepreneur can be eliminated, but the entrepreneurial function cannot.**

15. The Bolsheviks nationalized most Russian industry without too much difficulty. Why did the collectivization of agriculture arouse strong resistance?

16. Why do the United States and the U.S.S.R. carefully watch each other's growth rate?
    - **Economic growth as basis of economic and political power.**

17. Compare: (a) the standards of living in the U.S. and the Soviet Union; (b) the stability of the two economies; (c) the incentives used by the Soviet and American economies. Which do you prefer? Why?

18. Do you believe that the United States can retain its lead in standard of living? Explain.
    - **Comparative growth rates; stages of economic development; distribution of income.**

19. Why do we still have "pockets of poverty" in the United States?
    - **Distribution of income; inequalities of opportunity and ability.**

20. Discuss some ways in which the American economy changed since the McKinley Administration (1897-1901).
    - **Growth of GNP; business concentration; unions; economic role of Federal government; fiscal and monetary policies.**

21. Explain how each of the following increased the role of government in economic life during the 20th century. (a) U.S. leadership of the free world after World War II; (b) increase in U.S. population; (c) the Great Depression of the 1930's; (d) urbanization; (e) the philosophy of "the welfare state."

22. "The economies of both the United States and the U.S.S.R. are mixed economies." To what extent is this a true statement?

ACTIVITIES

1. *Continuum:* On a straight horizontal line that you have drawn, place the names of the world's leading economic systems, ranging from "command economies" at one extreme of the continuum to "free market economies" at the other.
2. *Student Reports:* Ask students to do library research and report on one of the following topics related to the Soviet economy:
   - Soviet Agriculture: Collectives, State Farms and Peasants' Plots
   - Soviet Farm Problems of the Seventies
   - Soviet Economic Growth
   - What Became of Libermanism?*
   - Incentives in the U.S.S.R.
   - Is the Soviet Union a Classless Society?
3. *Chart of Economic Systems:* Ask the students to summarize in a three-column chart the *Strengths and Shortcomings* of the following economic systems: American Capitalism, Swedish Socialism and Soviet Communism.
4. *Map:* On an outline map of the Soviet Union, ask the students to indicate by light shading in color the principal geographic (or climatic) regions of the country, and to locate and label the chief agricultural, mining and industrial regions of the U.S.S.R.
5. *Bulletin Board Display:* Appoint a committee of students to prepare a "Yesterday-Today Bulletin Board Display" on either the economy of the United States or the U.S.S.R. in 1900 and today. Include pictures, maps, pictographs, tables and charts prepared by the students.
6. *Debates:* Resolved: That the United States solve the problem of poverty by adopting a plan similar to the Soviet GOSPLAN.
   Resolved: That consumer sovereignty does not exist to any appreciable degree in the U.S.S.R.
7. *Chart:* Ask the students to prepare a chart comparing the American and Soviet economies in the following respects: use of incentives, method of allocating resources, nature of economic planning, and the roles of prices, central banking and management.
8. *Library Research:* Ask the students to investigate the changes that have taken place in the Soviet economy since the death of Stalin. Consult *Readers' Guide to Periodical Literature* for current articles bearing on this topic.
9. *Graphs:* Show in some graphic way changes in the United States and Soviet growth rate between 1960-1973. Do the same for each nation's GNP.
10. *Reports on the Economies of Western Europe:* Ask the students to do library research and present brief oral reports on one of the mixed economies in one of the countries of Western Europe.
11. *Game:* "Baldicer" (Baldicer Games). To show the interdependence of the world economy, Baldicer treats such issues as the population explosion, inflation, unequal distribution of resources and technology, and competing styles of economic organization. Level: Senior High School. Playing time: 2-4 hours. Number of players: 10-20.
12. *Student Committee:* Appoint a committee of students to investigate the role of each of the following in making and carrying out Russia's 5 and 7 year plans:
    - Praesidium of the Central Committee of the Communist Party
    - GOSPLAN
    - GOSBANK
    - Ministries of the Soviet Government
    - Regional Economic Councils
    - Plant Manager

    Assign individual students to present one- or two-minute reports on each agency listed.
13. *Filmstrip: Comparative Economic Systems* (35 frames, color—McGraw-Hill, 1962) points out how laissez faire and mixed capitalism, communist, fascist and socialist systems cope with the fundamental economic questions.
14. *Filmstrip: American Capitalism: A Flexible and Dynamic System* (Economics for Our Times Series—McGraw-Hill, 1962) discusses the theory of capitalism, as envisioned by Adam Smith, and the American "mixed economy" as it exists today.
15. *Motion Picture: Communist China* (30 minutes, McGraw-Hill) largely through edited newsreels, provides insights into the organization and operation of the economy of Communist China, and how the Chinese handle their allocation problems (1964).
16. *Motion Picture: Communism* (31 minutes, Du Art Film Labs.) is a U.S. Army film that explains the history, structure and totalitarian nature of communism.
17. *Filmstrip: Communism and Economics* (42 frames, LP record, color) compares a communist-oriented economic system with an American-style market-oriented system. Society of Visual Education, Inc., 1963.
18. *Cassette:* "Communism in the '70s" (New York Times Current Issues) features a discussion by Harrison E. Salisbury and a lively question and answer period.

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*Liberman, a Soviet economics professor, helped bring about some changes in the U.S.S.R. in the 1960's by urging that enterprise managers have greater freedom and flexibility in the use of the factors of production, that their performance be judged in terms of profitability, and that a part of the profits be used as an "incentive fund" to pay bonuses. See Yevsei Liberman, "The Plan, Profits and Bonuses," in Morris Bornstein and Daniel Fusfeld, editors, *The Soviet Economy: A Book of Readings*, 3rd ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1970), pp. 360-366. For an account of recent Soviet economic reforms, see E. G. Liberman, *Economic Methods and the Effectiveness of Production* (Garden City, N.Y.: Doubleday Anchor, 1973).

TOPIC 21

Domestic Problems Today

Economic Facts, Concepts, Principles or Problems

Unemployment
The farmer
Consumer protection
Distressed areas
Poverty and discrimination
Environment
Urban problems

THROUGHOUT this book we have suggested ways of relating historical events to current problems, for it is our belief that the major reason for studying history is that it helps us better to understand the issues of today. The teacher who has been fortunate enough to "cover" the whole range of American history from exploration to the present and who still has time, can do much more than simply review previous lessons. Current problems which have only been touched upon can now be examined in greater depth, and other problems can be introduced. Remember that today's events are *tomorrow's* history. By the end of the school year, the students should know how to use history and some basic economic principles as tools for the analysis of issues which affect us all.

A good daily newspaper will contain many items which have something to do with economic issues. Recently, we selected at random a daily newspaper published in a large Midwestern city and found 46 items dealing with economic topics. About one-third of these were in the first section of the paper, not in the financial section. A week later we examined another issue of this newspaper and found 82 items dealing with economics, 31 of which were in the first section! Among the problems dealt with were youth unemployment, labor unrest, taxation, rising prices, a water shortage, the cost of education and welfare, soaring land prices, a housing monopoly, wasteful spending by an agency of government, the cost of vandalism in the schools, aid to farmers, a controversial new expressway plan, wage rates, the costs of pollution, poverty, economic discrimination against women, urban planning, and economic growth. The problems we shall discuss in this section are those which were current in the early 1970's, and it is probable that they will be receiving public attention for many years to come. New and unanticipated issues will probably arise as well, however, and the student who has been equipped with the basic "tool kit" of the economist, the historian and other social scientists will be prepared to understand and cope with those problems in a more intelligent fashion.

Pollution was touched upon in Topic 12, but merits much more attention. Using the problem-solving approach, the class would first clearly identify and define the problem. What are the major sources of pollution? (For example, as of 1971 the sources of air pollution were as follows: motor vehicles, 61 percent; industry, 16 percent; power plants, 14 percent; space heating, 6 percent; and refuse disposal, 3 percent.) What are the costs of pollution? This is a very difficult question, and some costs will be hard to measure. In some cases, precise cost figures are available. For instance, in one year in the Ohio River basin, mine drainage caused $1,143,000 worth of damage to steamboats and barges. In 1970 in New York City it cost approximately $3,648,050 to dispose of abandoned cars (an example of solid waste pollution), while Philadelphia spent about $2 million to clean up litter, over and above its regular garbage and refuse collection costs. But how can we measure the costs in terms of human health? We know that air pollution causes illness and even death, but how do we put a dollar figure on these things? A once-beautiful stream or lake now clogged with filth has become an eyesore, but how do we measure the esthetic deterioration that has occurred or put a price tag on the recreational value that has been lost? These are real costs to society, but they are difficult to measure in a precise way*

Who bears the costs of pollution? To a great extent these have been **social costs** or **external costs.** That is, they are costs borne by the people as a whole rather than by the producer or consumer whose economic activities brought them about. When a firm produces a product it usually passes the costs of production on to the consumer. When you buy a car you are paying for the wages of the workers in the auto plant, the price of the raw material that was used, a portion of the cost of the capital that was employed in manufacturing the vehicle, part of the salaries of management, some of the cost of electricity and fuel used by the firm, and so on. These are **internal costs,** paid directly by the firm and indirectly by the consumer of the

*In 1972 it was estimated that air pollution cost over $16 billion a year in damage to human health, plants, materials and property values. The estimated cost of air and water pollution together was placed at $29 billion per year.

firm's output. But, if the manufacturer poured harmful wastes into a nearby stream and noxious smoke into the air, some of the costs of producing the vehicles are being borne by people who do not buy the cars or have a personal stake in the firm. The general taxpayer who must pay higher tax rates for a public water purification plant to clean the water from the polluted stream and the homeowners who must paint their homes more often because of smoke damage are also paying some of the costs of production. Thus, one of the proposals for dealing with pollution is that its costs be *internalized*—borne by the producers and consumers who are responsible for it.

The many pollution "cures" that have been proposed must be examined from the economic point of view. What will each proposal cost? Who will ultimately bear the cost? How will resources be reallocated? In 1972 a chemical plant in Saltville, Virginia, was closed down because it had been polluting the water and the air. Some of the cost of stopping pollution was borne by the plant's owners who would no longer derive an income from it. But 900 workers (in a town of only 2,500 persons) lost their jobs, so they too incurred some of the cost. The area's school system suffered because the plant was dropped from the property tax rolls. Thus, 49 teachers were eliminated along with many other school system employees. The teacher-pupil ratio rose, the school nursing service was ended, and athletic programs were curtailed. Economists have estimated that as many as 300 plants in 14 key industries will have to close by 1976 because of pollution requirements, and that big business may spend a total of $40 billion to curb pollution by the end of the decade. Even our international trade position can be affected, for if US. firms find their production costs rising because of pollution controls while foreign competitors do not, we will be less able to compete.

On the other hand, the long-run effects can be beneficial. Pollution control may become in itself an important new industry and a source of jobs. Because of the demand for controls, many firms are seeking new and better production methods. *Recycling* (reclaiming and finding uses for waste products) will offset some of the costs of pollution control. For example, some of the waste materials from packing plants can be made into fertilizer, and certain distillery wastes can be dried and used for cattle fodder. **Cost-benefit analysis** is needed in each case. For instance, one oil company got back only ten cents for every dollar expended on attempts to recover sulphur and sulphuric acid, but a paper mill recovered $500 worth of reusable chemicals per day because of a purification facility that cost only $100 a day to operate. A large chemical firm that had been polluting the Mississippi River recently spent $750,000 for a recycling system. This cut pollution by 90 percent and saved the firm $250,000 a year in material and water costs. It is probable that the long-run net effect of pollution controls will be good for the economy, but it is also important to realize that there will be short-run costs and dislocations that will impose higher costs on some than on others.

Among the various schemes for pollution control are **effluent or emission fees,** taxes, and direct government controls. The fees would act as **negative incentives.** Those discharging smoke into the air or sewage into the water would pay fees based upon the emission of smoke per hour or the amount of sewage effluent, and would thus be induced to keep these pollutants below specified levels. A high tax on leaded gasoline would presumably induce motorists to buy low-lead gasoline. A "disposal tax" on such things as cars and packaging material could help pay the cost of getting rid of these items when they are no longer useful. Governments can pass antipollution laws and can provide fines and even imprisonment for violators. In any event, everyone will have to help to pay the bill. Few Americans will willingly give up their cars, but they may find that they have to pay higher prices for them because of the pollution control systems that they will contain. If the higher prices cause sales to drop, some auto workers will lose their jobs, some gasoline stations and auto accessory shops will go out of business, and so on. The demand for public transportation—commuter trains and buses—might rise, and governments might have to increase their borrowing or raise taxes to meet this demand. Again we see that the **allocation effects** of apparently simple pollution control actions can become extremely complex—far more complex than we can possibly discuss adequately in this book! The automobile case is hypothetical, but many actual examples of such "trade-offs" can be found. For instance, one community imposed drastic new requirements for sewage treatment facilities in houses, raising the cost of new homes by 30 percent, and thus slowing down and even halting some housing construction. New homes were "traded-off" for cleaner water. This is not to suggest that the controls were unwise, but simply that people should attempt to understand the possible economic impact of proposals that they support.

Unemployment and poverty are persistent problems that require constant study. Many high school students are about to enter the labor force, and the availability of suitable jobs should be a matter of serious concern. **Youth unemployment** has been especially troublesome. For example, in February of 1972 the unemployment rate for all workers was 5.7 percent, but the rate for workers between 16 and 19 years of age was 18.8 percent—over three times higher! Students might profit by making studies of the occupations in which they are interested. What is the demand and supply situation for workers in that field? What sorts of education and training are needed? How is the industry affected by the business cycle? Will jobs be secure during recessions, or are there likely to be widespread layoffs? What does the future portend for people in this field?*

Poverty, welfare and discrimination are closely related issues.† As of May 1972, over 20 million Americans

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*Reports of the U.S. Dept. of Labor would be useful in answering this question. For example, see *U.S. Manpower in the 1970's; The U.S. Labor Force: Projections to 1985;* and *The U.S. Economy in 1980* (all published by the Dept. of Labor in 1970). Also see their *Occupational Outlook Handbook,* published annually, and priced at about $6.25.

†See Lester C. Thurow, *The Economics of Poverty & Racial Discrimination* (New York: The Joint Council on Economic Education, 1972). The pamphlet is priced at $1.25 per copy with accompanying suggestions for teaching the topic. Classroom sets of 29 are priced at $9.00 per set. A filmstrip, with a record or cassette, is available for $14.50.

were considered to be living in poverty, and over 15 million were on welfare. In New York City alone, 1.2 million people were on welfare out of a population of about 8 million. What are the causes of poverty? What can be done to end poverty? Why is the unemployment rate for blacks about twice that of whites? In 1969 the median income for nonwhite families in which the family head had completed four years of high school was only $7,875 as compared with $10,562 for white families with the same educational background. There have been other victims of discrimination as well, such as Indians, Spanish Americans, Jews and women. Women doing the same work as men have often received lower wages, they have been denied promotions and have been barred from occupations solely on the basis of sex. The immediate victims of discrimination are not the only ones who suffer. If people are "locked into" low level occupations when they are capable of doing more sophisticated work, they are not producing as much as they could be—thus, the whole economy suffers because the nation's total output is below its real potential. Economists assert that our GNP would be several billions of dollars higher than it is if it were not for discrimination.

Other aspects of poverty that might be analyzed are the **depressed areas,** such as Appalachia (why is this particular region suffering, and what can be done about it?), the plight of the small farmer, urban slums, and the great disparities in per capita income among the states. (Why is Connecticut's per capita income about double that of Mississippi's? Is there a relationship between the income disparity and the fact that Connecticut is much more heavily industrialized while Mississippi is more of an agricultural state?)

We are all consumers, and there will always be **consumer problems** needing study and analysis. Is the consumer really guiding and directing the economy, or is the consumer an "economic infant" who needs more government protection? In what way does the consumer affect the business cycle? How important is consumer spending in keeping the economy moving upward? To what extent is consumer credit a good thing? To what extent is it a problem for the economy? In recent years the teenage consumer has taken on greater importance because of the extent of teenage spending. How is the economy affected by the "teenage market"?

By 1973 it is expected that about 73 percent of all Americans will be residing in urban areas (cities and suburbs). Cities are confronted with enormous economic problems that are bound to affect everyone in some way or another. High population densities (such as Manhattan's 77,000 per square mile) are often related to high crime rates, overcrowded housing, high disease rates and serious traffic problems. It is not unusual to find that a city must devote nearly a third of its land area to streets—land which might be used for homes or business establishments. For example, New York City's streets take up more land than its commercial, industrial and residential areas combined. One of the major problems faced by cities is the loss of industries (which also means loss of jobs and a source of tax payments), as firms move to the suburbs. Lack of space and traffic congestion are two of the reasons why industries move out. For example, one New York manufacturer found that it took 10 men a total of 12 hours to unload a truck in the congested business district of New York City, while it took only two men a total of only three hours in a suburban area. Antiquated facilities, inadequate commuter transportation, higher labor costs, high taxes, soaring land values, rising crime rates, growth of slums, obsolete public facilities and the exodus of middle-income people are some of the other reasons cited by business firms leaving central cities. Many cities are finding that middle-income people (those who are highly productive and who can pay higher taxes and pay for many services themselves) are leaving, only to be replaced by poor people who have few marketable skills, low incomes and great need for public services. (For example, during a recent five-year period Cleveland lost 90,000 middle-income persons to the suburbs and gained 25,000 poor.) This "erosion of the tax base" coupled with the influx of the poor puts a great strain on a city's budget. There is a need for more police, firemen, teachers, social workers and other producers of services in the cities, and their salaries must rise to keep up with the rising wages of manufacturing workers. Yet, while the rising **productivity** of the industrial worker often makes it possible to increase his pay without reducing the income shares going to the other agents of production, the service worker may be producing no more now than he was 50 years ago.* Thus, his higher pay cannot be met, in many cases anyway, by an increase in his productivity. The fact that the costs of running cities have risen faster than their revenues has led many mayors to demand aid from the Federal government.

In the decade of the 1960's, violent crime rose by over 100 percent and property crimes (such as burglary and auto theft) rose by over 125 percent. While the immediate victims suffer most, we all pay for the rising crime rate. In 1972 it was estimated that shoplifting alone cost the nation $3 billion per year, and that crime directly related to drug addiction cost $5 billion. Businesses which lose large amounts because of crime must pass at least a portion of the loss on to the consumer in the form of higher prices. Government outlays for crime reduction nearly doubled between 1969 and 1971. Thus, as taxpayers and consumers we all pay the cost of crime. By 1970 it was estimated that Federal, state and local governments combined were spending $8.5 billion for police, prisons and courts. Note the high **opportunity cost** of crime—this is $8.5 billion that cannot be spent on housing, schools, hospitals, recreation centers, training programs for the poor, and so on.†

And so it goes! Nearly every problem of modern

*This is not to imply that productivity increases in the service occupations are impossible. Some service workers have substantially increased their output, thanks to such things as better training and equipment (such as computers). The nature of many service jobs makes productivity increases very difficult, however, and the exact measurement of productivity in service positions is often difficult.

†See Joseph G. Metz, *The Economics of Crime* (New York: The Joint Council on Economic Education, 1971). This pamphlet, which also contains suggestions for teaching about the economics of crime, is priced at $1.00 per copy, or 80¢ per copy if 10 or more are ordered. There is also an accompanying filmstrip, with record or cassette, for $14.50.

life has an economic dimension—the plight of the aged, the incredibly high cost of medical care, the economic crises in many colleges, inadequate housing, airport delays, transportation, the fiscal problems of numerous public school systems, the so-called energy crisis and scores of others call for economic analysis. In a system in which the average citizen has a voice in public affairs, either through direct participation in political and economic decision-making or indirectly through elected representatives, it is imperative that everyone have an understanding of the basic economic concepts that relate to the problems of contemporary living.

DISCUSSION QUESTIONS

1. Unless action is taken quickly, "Spaceship Earth" may become a dead planet.
   (a) Why have people all over the world become concerned about environmental problems?
      • **Costs of pollution; depletion of natural resources; population explosion.**
   (b) Why was the United Nations Conference on the Human Environment, held in Stockholm in 1972, considered important in the fight to keep Spaceship Earth safe?
2. What are the major sources of pollution in the United States?
   (a) Why is pollution called a social or external cost?
      • **Internal and external costs of production; variable and fixed costs.**
   (b) How do external costs differ from internal costs?
3. Why is the natural environment an important ingredient in "the quality of life"?
4. It is important to understand both the immediate and long-run effects of proposals to control pollution.
   (a) Discuss the immediate effects of pollution controls on: *(1)* jobs in an industry accused of pollution; *(2)* profits; *(3)* taxes; *(4)* foreign competition.
   (b) In the long run, does pollution control legislation create or destroy jobs? Explain.
5. Discuss how cost-benefit analysis is used by a municipality using a garbage incinerator to generate electricity for its parks and public buildings.
6. Show how effluent or emission fees, taxes and direct government controls can act as "negative incentives."
7. The fight for a safe environment in the U.S. has raised many fundamental questions.
   (a) To what extent are you willing to forego the unrestricted enjoyment of the material goods (such as cars) which provide us with our high living standards but often at the expense of the environment?
   (b) Are we willing to pay the costs (in money and living standards) that an unpolluted environment would require?
      • **"Trade-offs"; real costs; cost-benefit analysis.**
8. Finding that there seems to be a relationship between GNP growth and increases in pollution, some environmentalists insist that we have a "zero growth rate." Many economists, on the other hand, argue that a high rate of growth would help to provide us with the resources needed to combat pollution and other current problems. Discuss this issue. Which side do you favor? Why?
9. Unemployment continued to be a persistent economic problem in the early 1970's.
   (a) Which age and racial (or ethnic) groups have suffered most from unemployment in this decade? Why?
      • **Frictional, seasonal, cyclical and technological unemployment; discrimination.**
   (b) How does the Federal government's fiscal policy tend to affect the rate of unemployment?
      • **Antiinflation actions may bring higher unemployment rates; effects of taxation; government spending; Federal budget; price and wage controls.**
   (c) What would you do about the hard-core unemployed?
      • **Job Corps; retraining; public works projects.**
10. Why has the problem of economic insecurity grown more serious during the 20th century?
   (a) How are poverty, discrimination, poor education and welfare interrelated?
   (b) Why is economic insecurity more serious in an urban society?
   (c) How would you evaluate the current proposals of the major political parties (and others) for ending the problem of economic insecurity?
      • **Examine recent plans, such as guaranteed income, negative income tax, changes in Social Security, medicare, medicaid, "make-work" projects, and whatever is current.**
11. What changes do you foresee in regard to each of the following in the years ahead? (a) Women in the labor force; (b) the economic role of teenagers; (c) the influence of rural farm areas on national economic policies; (d) the length of the workweek; (e) the role of education. Explain your answers.
12. In recent years economists have been discussing "the economics of crime."
   (a) Show how crime affects: *(1)* the profits of businesses; *(2)* the prices consumers pay; *(3)* the quality of life.

(b) What is the relationship between the use of hard drugs and crime?
(c) If you were President of the U.S., how would you deal with the problem of crime?
- **Real costs of crime; cost-benefit analysis applied to anticrime measures.**

13. The problems of the poor in rural areas have not been as well publicized as the problems of the urban poor.
(a) Why has rural poverty increased during the 20th century?
(b) How did many black southern tenant farmers and share-croppers try to escape the vicious circle of poverty? To what extent did they succeed?
(c) Is the small family farm doomed? Defend your answer.
- **Economics of agriculture; farm mechanization; overhead costs; markets for farm output; elasticity of demand for farm output; supply problems; competition.**

14. What is meant by "consumerism"?
(a) Is government providing enough protection for the consumer?
(b) What have been some of the accomplishments of the consumer protection movement?
(c) What consumer problems need further investigation and possible action?

15. What kinds of urban problems may develop in the next 25 years? What steps can be taken today to prevent these problems from becoming unsolvable?
- **Financial problems of cities; erosion of tax base; traffic congestion and its costs; rising costs in cities; exodus of businesses and the middle class; housing.**

16. Some say that the keys to the ghetto problem are jobs, housing and education.
(a) To which of these would you assign the highest priority? Why?
(b) If you were President, what priorities would you assign to the Secretary of Housing and Urban Development?

17. The tidal wave of progress often leaves distressed areas in its wake.
(a) Why is Appalachia considered a distressed area left in the wake of progress and technology?
(b) What steps can government, business and the individual take to help alleviate the problems of the distressed areas?
- **Regional economic development; investment; role of education.**

18. What are the economic problems confronting old people? What can be done to help these people?
- **Inflation; low-cost housing; medical costs; Social Security; pension plans.**

ACTIVITIES

1. *Oral Reports on Poverty:* Assign oral reports on various aspects of the problem of poverty. For example:
(a) The persistence of "pockets of poverty" despite rising national incomes.
(b) Jobs—the solution to most ghetto problems.
(c) The economic effects of racial discrimination.
(d) The effects on earnings of a low level of schooling and of a lack of training and special skills.
2. *Position Paper:* Write a position paper on a socioeconomic topic of "unfinished domestic business," such as sexism in employment, pay and promotional opportunities; racial discrimination in housing, business, the professions; distressed areas; welfare reform; etc.
3. *Debate:* Resolved: That the office of Protector and Defender of the Consumer, with powers similar to those of the Attorney General, be established.
4. *Oral Reports on Consumerism:* Assign oral reports on various aspects of consumerism. For example:
Ralph Nader: Crusader
The "checkless society"
Better buymanship
Organic foods
Safe cars
Recycling of wastes
5. *Forum:* Plan a forum on the Women's Liberation Movement, consisting of several speakers. One might discuss the history of the women's rights movement; another the current demands of "Women's Lib"; and still another a forecast of changes predicted by the year 2000. Class discussion should follow.
6. *Community Survey on Consumerism:* Ask the students to investigate consumerism in their own communities by conducting a survey and by interviews. Evidence might include the existence of cooperative stores, cooperative apartments, boycotts of stores, activities of civic and women's clubs, etc.
7. *Written Reports:* Ask the students to report on the activities of Ralph Nader and Nader's Raiders. A good source of information is the series of paperbacks published as *Ralph Nader Study Group Reports.*
8. *Book Report:* Since Rachel Carson wrote *Silent Spring,* many interesting books have been published on environmental problems. Ask each student to select one book on ecology published within the past decade and report on its thesis and its recommendations.
9. *Environmental Hall of Fame:* Appoint a committee of students to nominate members for the Environmental Hall of Fame. Ask each committee member to sponsor a candidate. Candidates might include: Theodore Roosevelt, Franklin D. Roosevelt, Gifford Pinchot, Rachel Carson, Ralph Nader.
10. *Debates:* Resolved: That the American economy is better prepared to combat the threat of depression today than it was in 1929.

Resolved: That high taxes are an indication that government is wasteful.

11. *Sound Filmstrip:* Show the Associated Press Special Reports sound filmstrip on *The Changing Role of Women* to show the link between the suffragette movement and the current Women's Liberation movement.
12. *Sound Filmstrips:* Show selected reels of *The 1960's* and *The 1970's,* a series of color filmstrips in the American Decades Series (International Film Bureau) which survey political and economic patterns, science and technology, the struggle for human rights, and cultural developments for the period under study.
13. *Community Economic Problems:* Ask the students to read the local newspaper for a stated two-week period and report on the current economic concerns of the people as reflected in the newspaper. State problems can also be handled in this manner.
14. *Graphs:* Ask the students to make bar graphs comparing the number of white male and female teenage unemployed with those for black male and female teenagers. Compare the teenage rates with the current unemployment rate. Use the publications of the Bureau of Labor Statistics as sources.
15. *Game:* "Environmental Game" (Simulation System Program). This game simulates negotiating sessions involving some of the problems of coping with air, water, land and visual pollution. Level: Junior and Senior High School. Playing time: 2 hours. Number of players: 4-32.
16. *Sound Filmstrip:* Show the New York Times sound filmstrip entitled *The Green Revolution* to show the economic promise and the ecological costs of this latest attempt to feed the hungry planet.
17. *Sound Filmstrip:* Show the New York Times filmstrip *The Seventies: Decade for Decision* to introduce the students to the problems of space, poverty, pollution, international and racial conflict.
18. *Sound Filmstrip:* Show the Associated Press Special Reports sound filmstrip on *Consumerism: The Dangers of Affluence* to introduce the students to this movement.
19. *Panel Discussion:* Plan a panel discussion on the growth of consumerism during the 20th century. Assign to various speakers topics such as the Great Depression of the 1930's, the New Deal and the consumer, President John F. Kennedy's program, Ralph Nader's investigations, and the effects of inflation during the Vietnam War. The chairman might summarize the discussion and the question period by pointing out recent trends.
20. *Film: Can the Earth Provide?* (30 minutes, McGraw-Hill) dramatically portrays the race between the earth's burgeoning population and productivity (1960).
21. *Cassette:* "Environment—Survival in the '70's" (New York Times Current Issues) features a discussion by David Bird and a lively question and answer period.
22. *Filmstrip: Poverty, Problem and Promise* (Current Affairs) identifies the causes, extent and victims of poverty and some of the proposals to cope with the problem of poverty in the United States (1965).
23. *Motion Picture: Inflation* (27 minutes; color, sound) analyzes the economic conditions in 1961-1965 that created an inflationaary potential and discusses measures available at the time to dampen inflationary pressures. (Committee for Economic Development, 1971. Distributor: McGraw-Hill Book Company.)
24. *Motion Picture: The Cities: To Build the Future* (60 minutes, color, sound) produced by CBS News, develops a systematic approach to urban planning and renewal. (BFA Educational Media Division, CBS News, 1968.)
25. *Motion Picture: One Way to Better Cities* (color, sound) attributes urban decay and suburban sprawl to the property tax. (Association-Sterling Films, 1969.)
26. *Oral Reports:* Ask selected students to make short oral reports on the following questions related to the role of consumers in the 1970's:
    - Is the consumer of the 1970's still an economic infant requiring government protection?
    - How does the consumer affect the business cycle?
    - Is consumer credit a boon or a menace to the American economy?
    - How is the economy affected by the teenage market?
    - What would be the economic and social repercussions of a four-day, 32-hour work week?
27. *Joint Council's Economic Topic Series:* The Joint Council, in cooperation with Teaching Resources Films, has produced six filmstrips with records or cassettes to accompany the pamphlets of the Economic Topic Series. The titles are: *The Economics of Pollution; The Economics of Crime; The Economics of Poverty and Racial Discrimination; The Economics of the Oceans; The Economics of Taxation;* and *Economic Stabilization Policies.*

Bibliography

THE works listed here are those which might be considered for pupil or teacher use. It is suggested that the teacher examine any listed book before adopting it or assigning it to students. The fact that a book appears here does not necessarily constitute a recommendation by the authors or by the Joint Council on Economic Education, nor does it imply that we agree with any or all opinions expressed. Only the classroom teacher can decide which books are suitable for a given class, group or individual. We have simply given a representative sample of the material that exists. Brief comments are given in parentheses where we felt it necessary to provide further information.

An attempt has been made to categorize each work as being suitable for the teacher (T), the student (S), or for both (B). It should be noted, however, that a book categorized as (T) might be used by bright students as reference material even though it was written for adults. Books categorized as (S) were written for secondary school students or are so simple that students of average ability should be able to handle them easily. Those categorized as (B) are fairly readable, nontechnical works which can be used by both students and teachers. Our classification of the material has been rather arbitrary in some cases, so again it is up to the teacher to determine whether a given publication is useful for a particular class or individual.

This bibliography is divided into three sections. The first includes books on economics or economic history in general. The second lists general reference works. The third is made up of publications dealing with a particular topic or topics, or a relatively short period in American economic history.

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